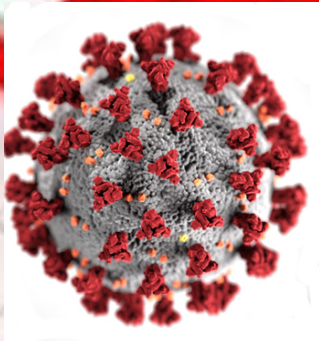


The Economic Outlook for the Nation and California

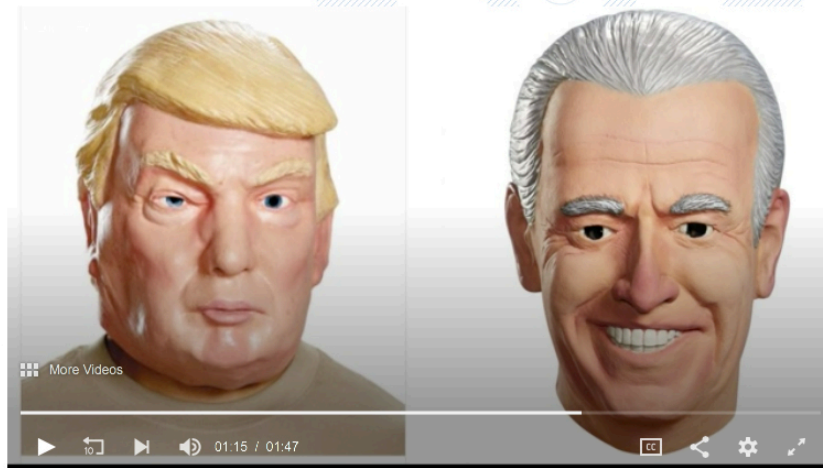


November 12, 2020



Mark Schniepp
Director

Mask sales have predicted presidential elections since 1984



Author: **Alexandra Corey**
Published: **8:24 AM CDT October 29, 2020**
Updated: **11:06 AM CDT October 29, 2020**



ST. LOUIS — For more than 30 years, the sales of Halloween masks at Johnnie Brock's Dungeon have matched up with the outcome of presidential elections.



Fortune, online, July 19, 2018
<http://fortune.com/longform/economic-expansion-end-is-near/>

Los Angeles Times

\$2.75 DESIGNATED AREAS HIGHER © 2020
THURSDAY, APRIL 30, 2020
latimes.com

**STUDY
 YIELDS
 HOPE FOR
 TREATING
 COVID-19**

In findings hailed by Dr. Fauci, the drug remdesivir shortened recovery time for seriously ill patients.

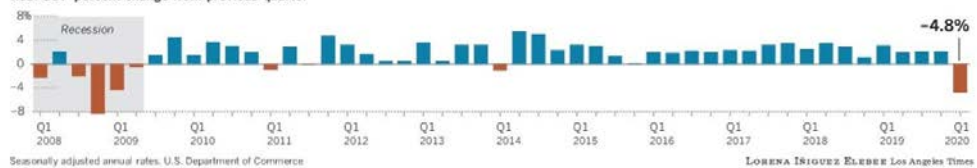
BY MELISSA HEALY

In the first clear signal

GDP shrinks

The nation's gross domestic product dropped at a pace of almost 5% after adjusting for inflation, according to government estimates.

Real GDP percent change from previous quarter



‘Extraordinary shock’ to economy



GDP falls 4.8% in the first quarter, the first decline in years. Fed chief warns of much worse damage ahead.

April 30, 2020

2020 Historical Context

- (1) Economy was sailing along through February
- (2) Shelter in place ordered by mid March
- (3) All but essential economy shut down
- (4) NBER declared recession
- (5) Lockdowns were eased in May
- (6) Growth has resumed since

Key Economic Facts Today

- There are 11 million people not working today that were working in February
- Barely 33 percent of all K-12 students are attending school normally
- Hunger and poverty and violence are higher this year
- Coronavirus cases are rising everywhere and this threatens the worldwide economy, again

What we know now that we didn't know 6 months ago

- We now know that the public health crisis has led most government decisions to subordinate economic issues
- This is especially true in California
- Decisions have been confusing, inconsistent and have often seemed arbitrary
- The subordination of economic issues and consequences has lasted much much longer than anyone had anticipated

What we know now

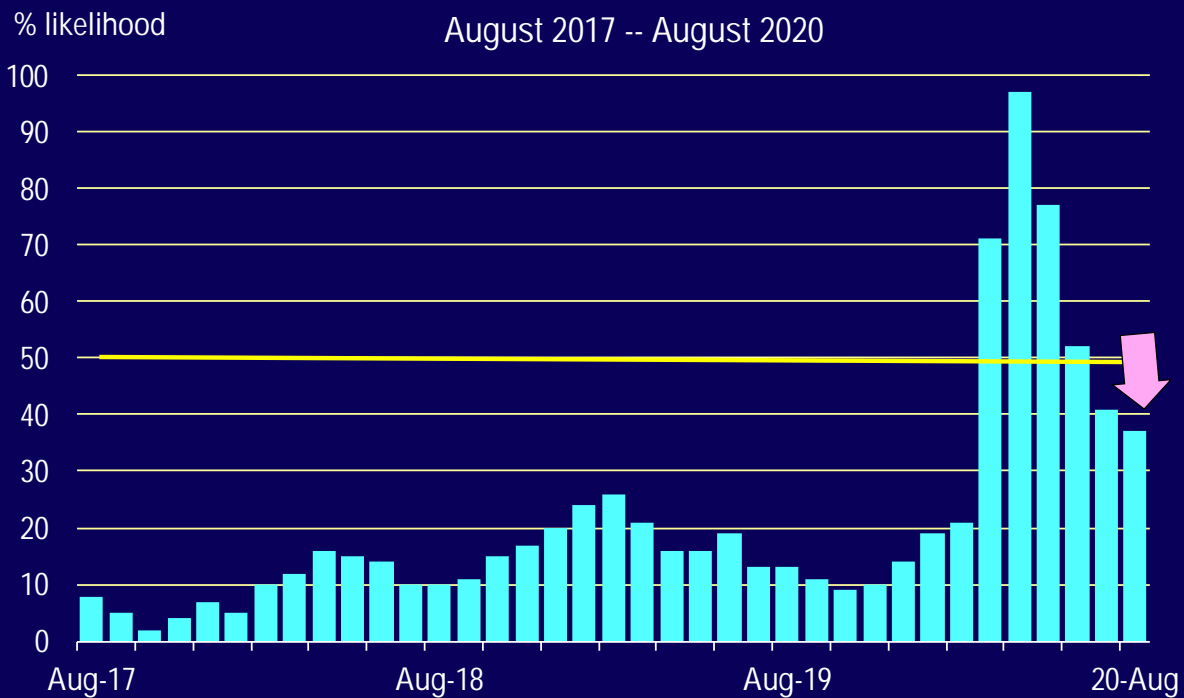
- The pandemic is not “burning itself out”
- That in order to return to normal, the virus needs to be eradicated, because of the unrelenting public health emphasis
- That a therapeutic cure or vaccine is going to be necessary for restrictions to be lifted
- There are currently 11 solid vaccine candidates in the U.S. and 3 are in Phase 3 trials
- The Pfizer vaccine could be ready to go next month

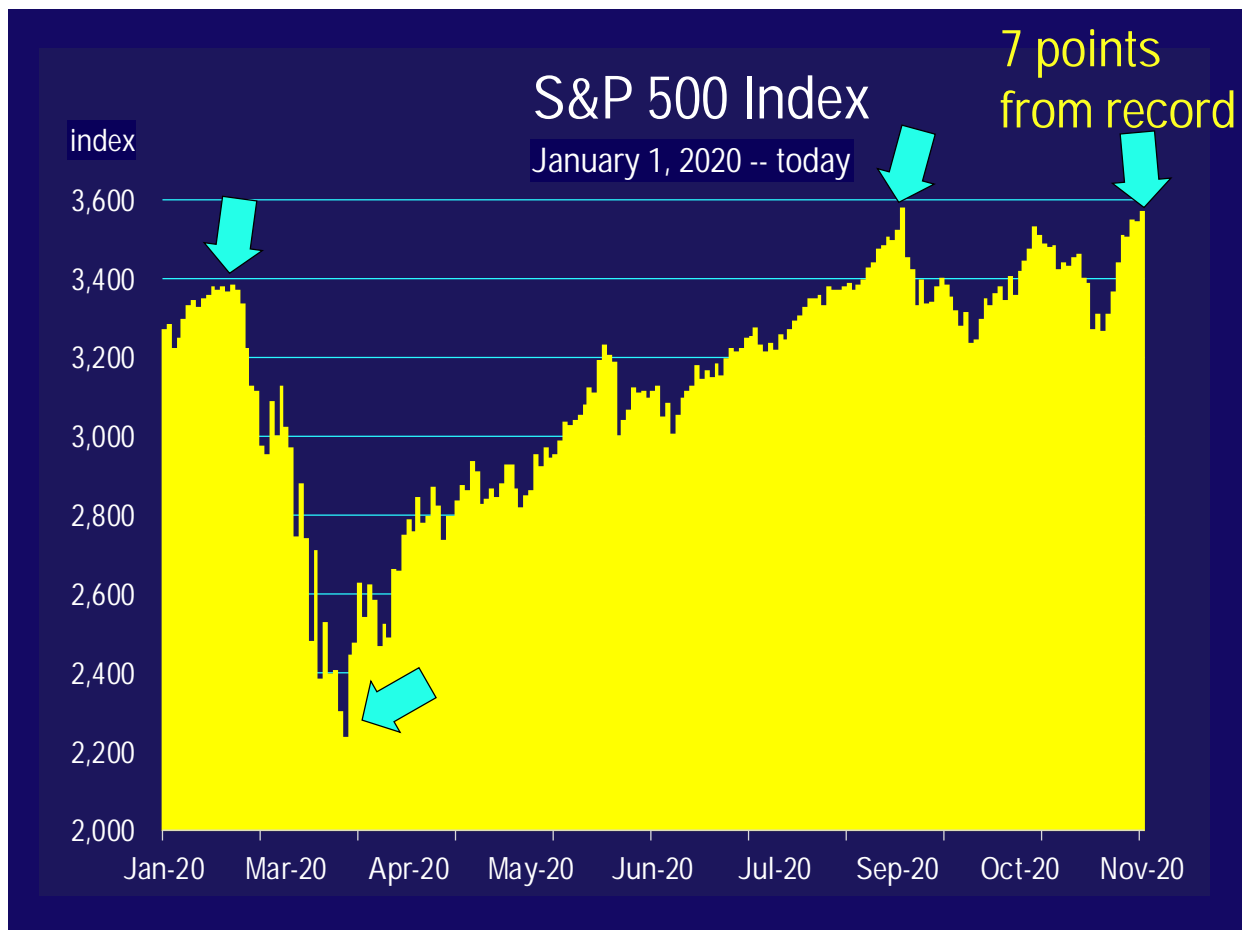
What we didn't expect

- The strength of the stock market
- Spending by consumers on goods has entirely recovered nationwide
- Residential real estate is booming
- Demand for vehicles has soared
- The risk of recession is over

Probability of Recession / U.S.

the probability that the U.S. economy will be in recession in 6 months





What kind of recovery are we in ?

(1) Are we in a recovery ?

--- YES, but it's not entirely convincing yet

(1) Is it V-shaped? (quick return to normal)

--- NO

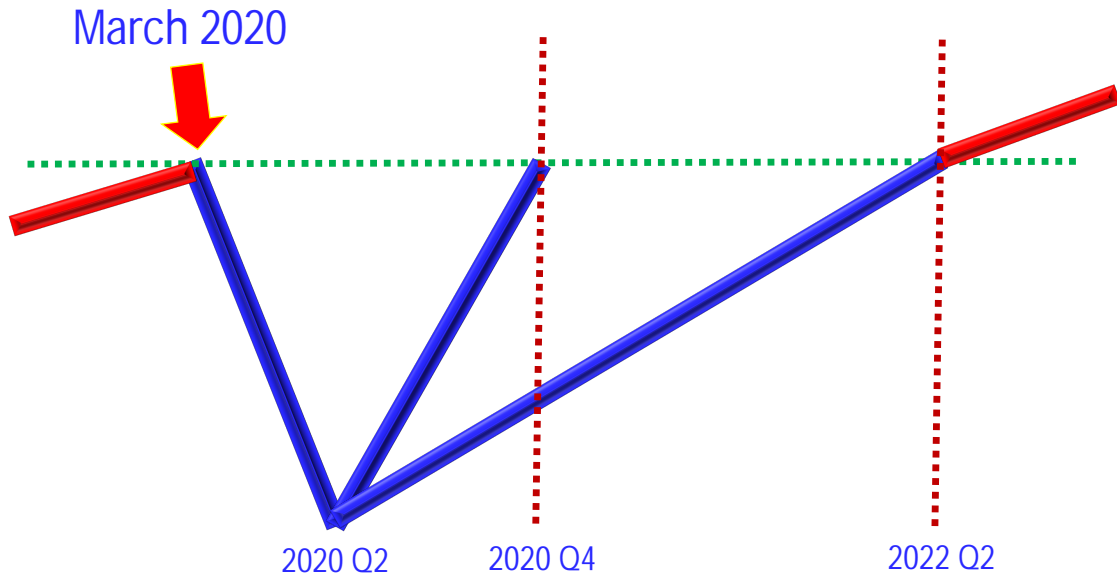
(2) W shaped? (recovery and 2nd decline)

--- Not yet

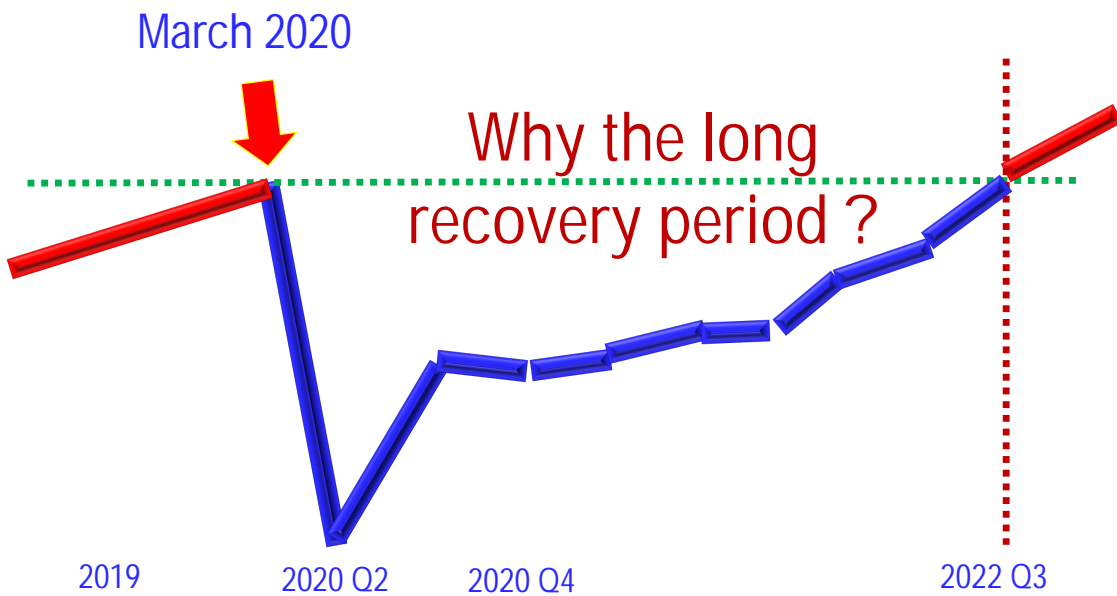
(1) L shaped ? (extended downturn)

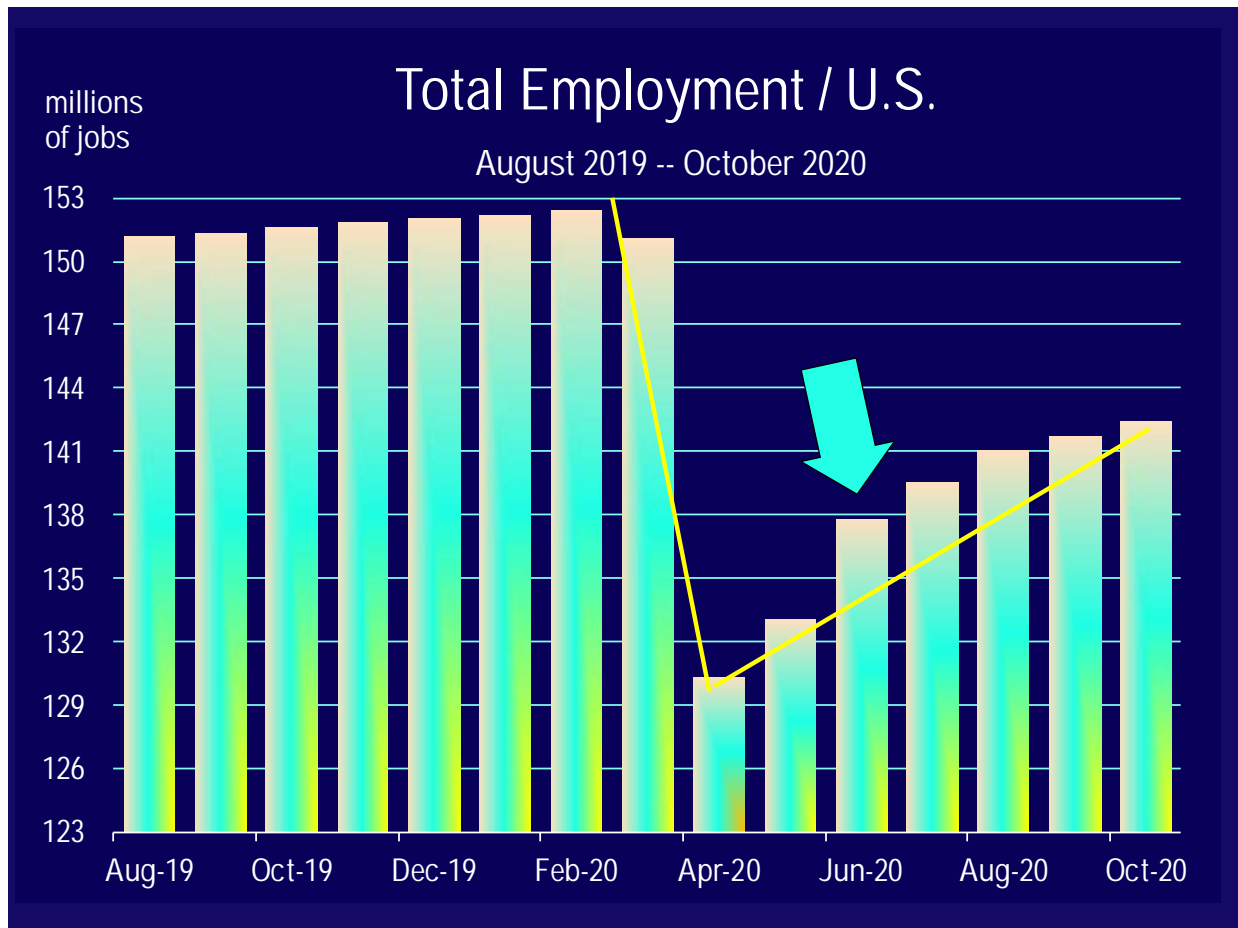
--- NO

The shape of Recovery



The shape of Recovery:
"tilted L or partial V with a bend"





Labor Market Movements

- The labor markets are coming back to life after the nationwide shutdowns
- The official unemployment rate has now fallen to 6.9 percent, or about 8 percent if misclassification errors are corrected
- California is not keeping up. Labor markets are stagnant because of the summer reversals

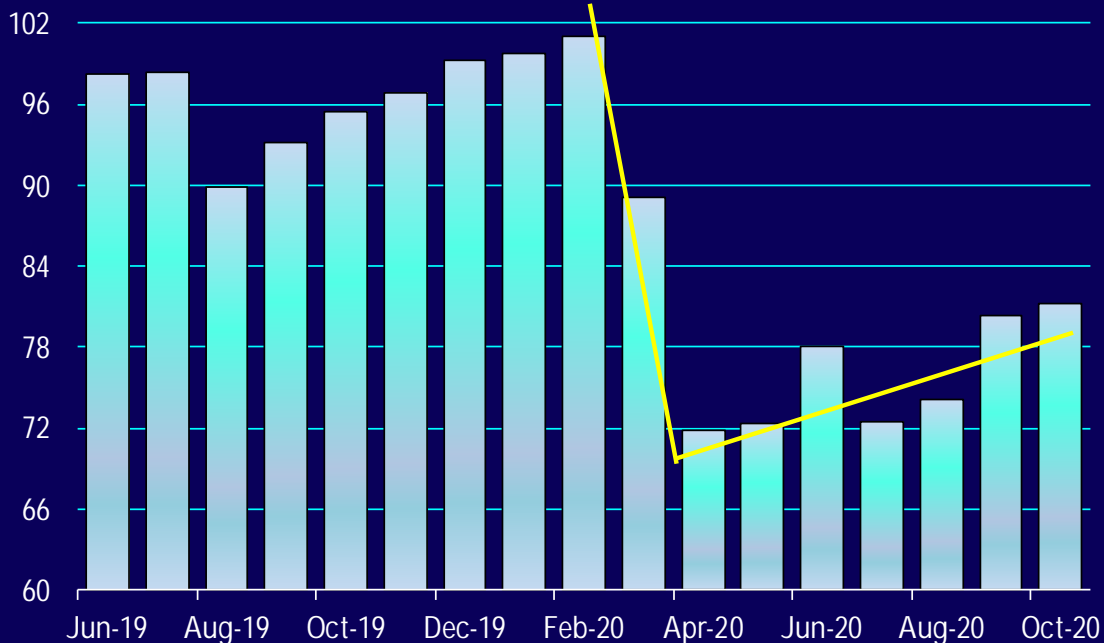
Labor Market Concerns

- The biggest concern now is whether firms will be forced to permanently lay off workers
 - due to longer enforcement of existing restrictions
 - possible new restrictions or reversals
 - lack of any new stimulus by Congress to help save struggling households
- Florida, Alaska, Indiana, Tennessee, Missouri,
 - Montana, Oklahoma, Wyoming

Consumer Sentiment / University of Michigan

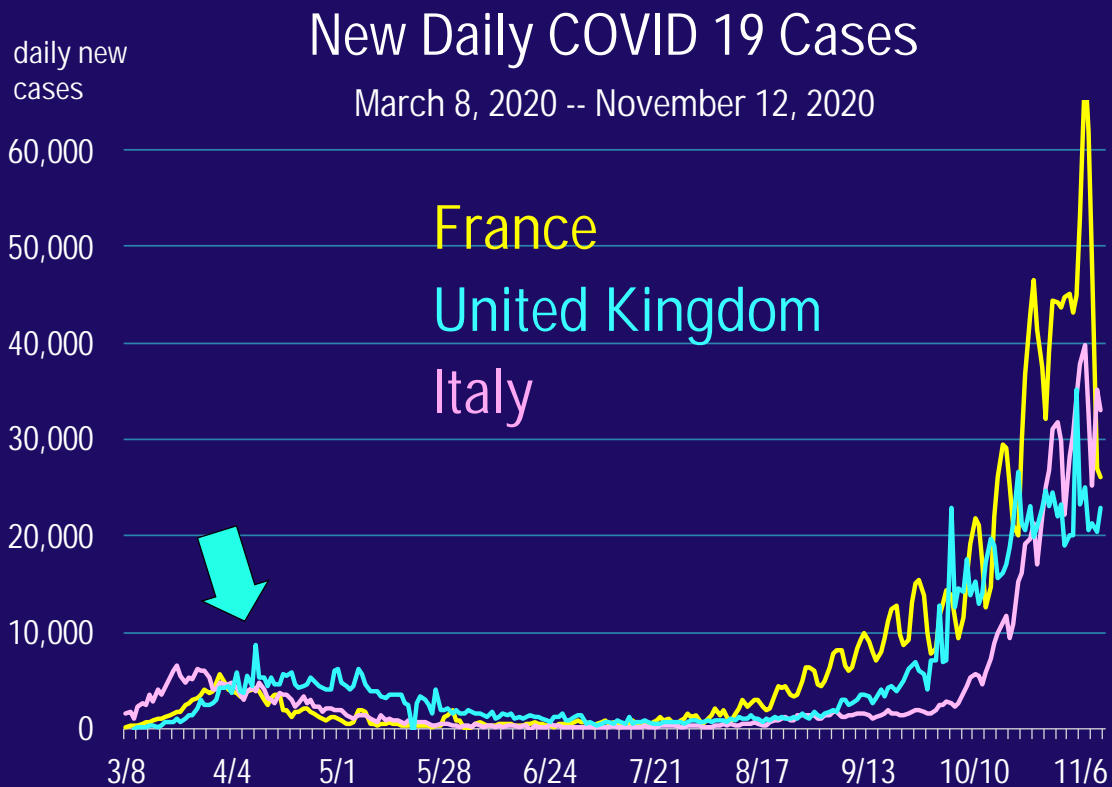
index
1985=100

June 2019 -- October 2020



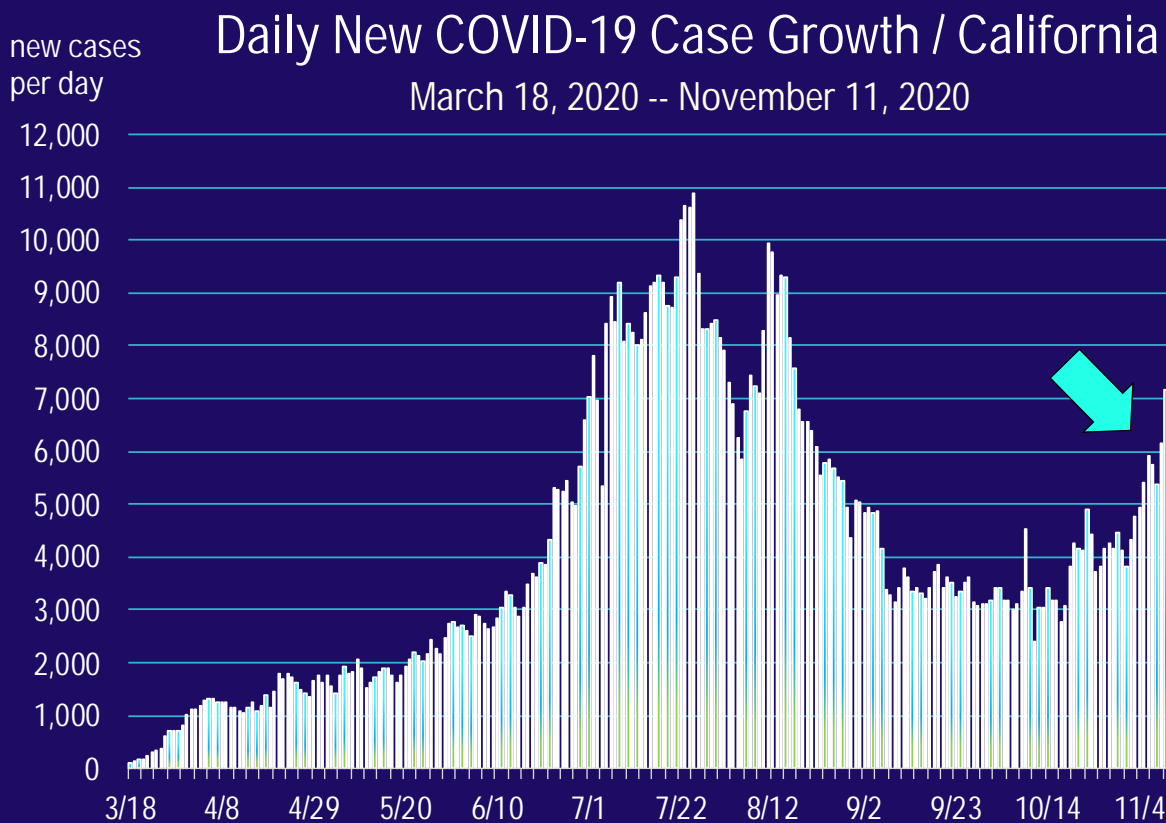
The 2nd Wave

- Daily new cases are soaring in Europe
- Despite major dissent, economic shutdowns are being reinstated
 - Italy: bars, restaurants closed at 6 PM, recreation shut down entirely for a month
 - France: bars, restaurants closed entirely
you can't leave your house except to work or attend school
 - Germany: bars, restaurants, theatre, soccer and street fairs closed for a month
 - Madrid: entering or leaving the city is restricted



The 2nd Wave

- The onset of the 2nd wave has now reached the U.S., but prominently in the mid-west
- Cases are rising in the east coast states, but not so much in California yet
- *However, this 2nd wave pattern is typical of influenza and coronaviruses to arrive in fall and peak in winter*
- We are now in the normal flu season.
Last year there were 39 to 56 million cases of flu leading to 24,000 to 62,000 deaths



The 2nd Wave

- With the onset of a 2nd wave, mobility and gathering restrictions may very well be tightened further to prevent hospitalizations
 - occurring in both New York and San Francisco
- Social distancing slows the spread of the virus, but as the Great Barrington Declaration states:

We will need to develop herd immunity or produce an effective vaccine as the only way to end this pandemic

The 2nd Wave

- Continued restrictions of economic activity not to mention tightened restrictions will exponentially make matters worse for the economy
- More businesses will fail permanently and workers will lose their jobs permanently
- Many business owners and workers will never recover from this trauma
- In view of the uncertainty, the economy faces a major risk of relapse

What about:



California

California

- We were one of the last states to reopen, generally on May 25, (the Bay Area a week later)
- A sharp increase in hiring occurred, especially in restaurants, retail, healthcare, and manufacturing
- But cases started increasing in June and July
- The Governor ordered closures again on June 28 and further restrictions on July 13
- And those have largely remained in place today

California

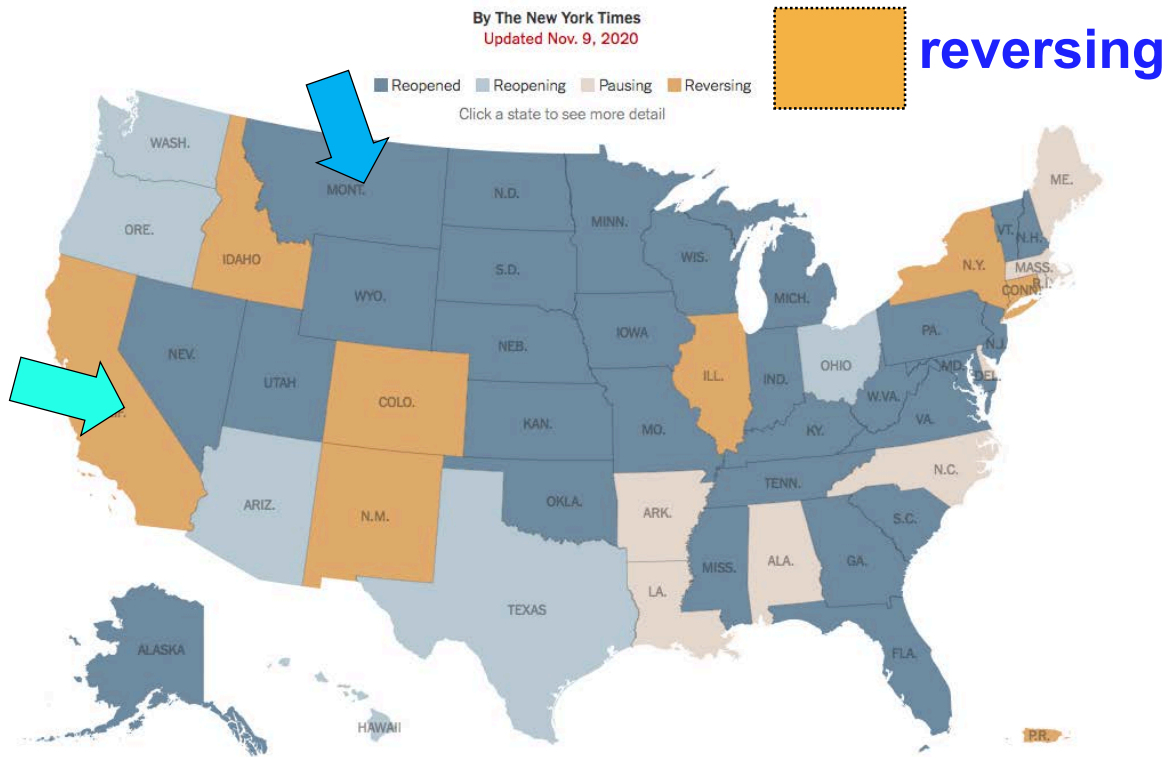
- During the summer, it was decided to keep schools closed this fall; they can now open *but most public schools are not opening*
- Public gathering activities never opened and will remain closed indefinitely . . .
 - amusement parks
 - concerts, conventions, conferences
 - live entertainment

California is lagging

- California has the 3rd highest unemployment rate in the nation
- California has a disproportionately higher share of unemployment claims, nearly two times our "fair" share
- Job creation has lagged most other states
- Through September, the state has recovered only 38 percent of total job loss
- California is still the most locked down state

See How All 50 States Are Reopening (and Closing Again)

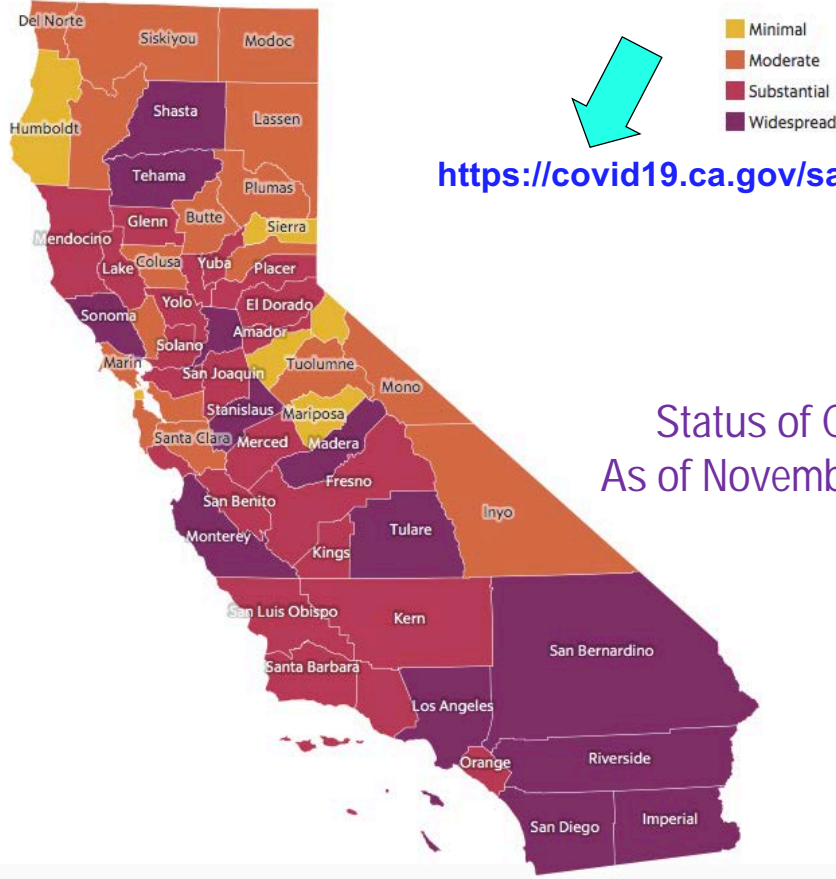
By The New York Times
Updated Nov. 9, 2020



Blueprint for a Safe Economy

- the new color coded Blueprint emerged on August 31 as the new regimen for loosening economic restrictions, County by County
- County economies are classified in tiers by numbers of cases and positive tests for COVID 19
- Right now, all major counties are still in the two most restrictive tiers

As of Nov. 10, 13 counties are at the highest level of restriction for widespread COVID-19 risk.



<https://covid19.ca.gov/safer-economy/>

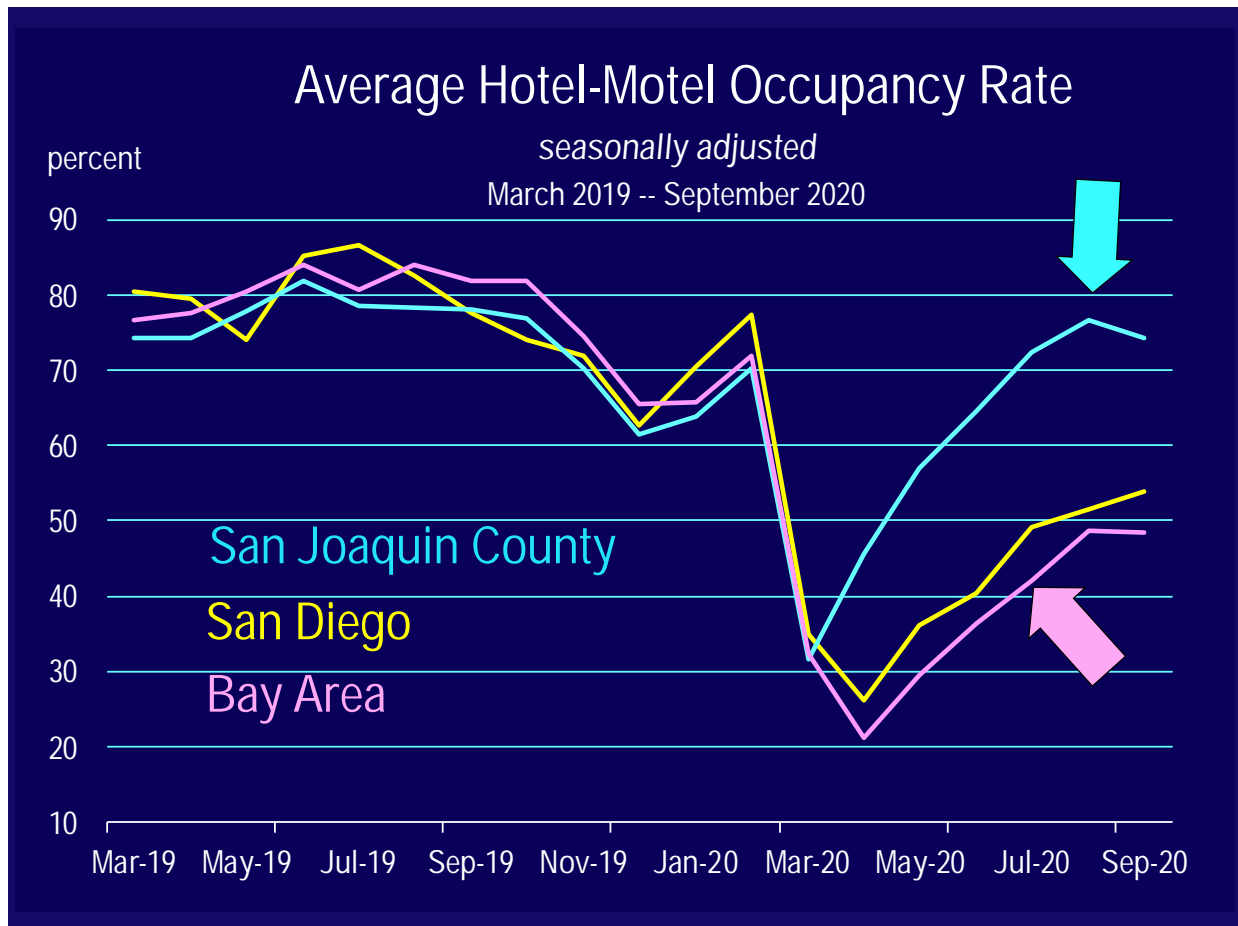
Status of Counties
As of November 10, 2020

Blueprint for a Safe Economy

- it takes weeks to move from tier to tier even if there is consistent improvement in fewer cases and negative testing
- October 2: rules were stiffened further when a racial equality measure was added, to cases and positive testing
- In short, the blueprint system now represents the most onerous and restrictive limitations on California's economy

California is lagging

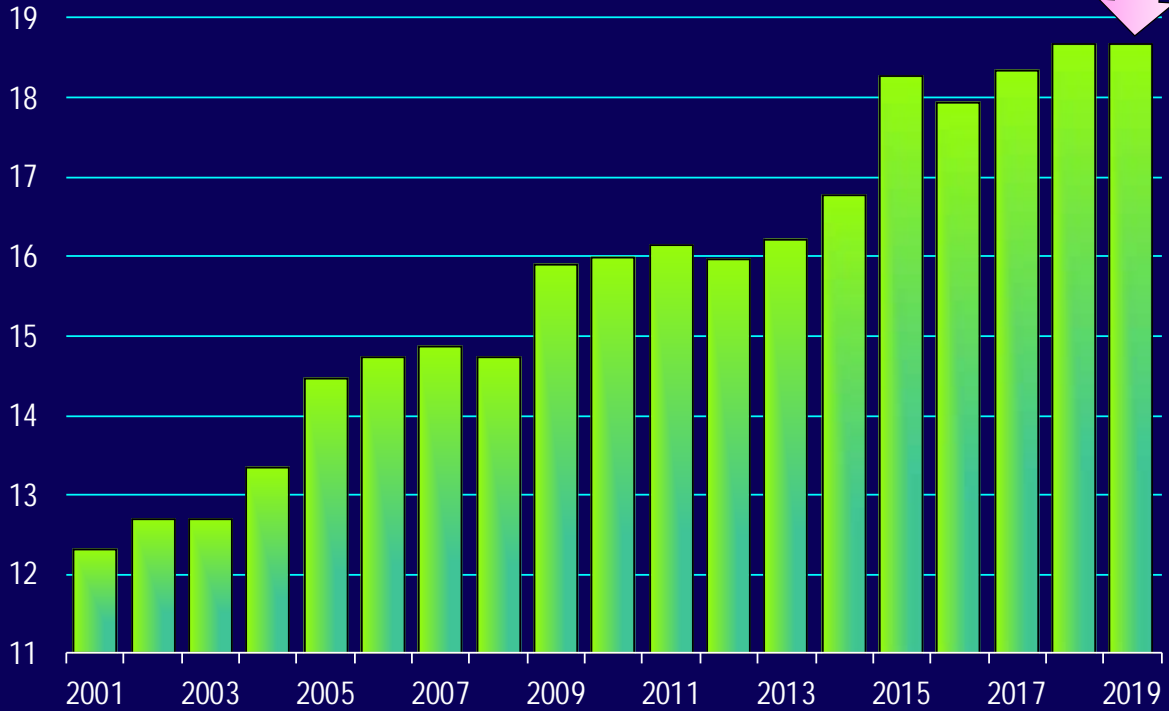
- Retail stores, salons, barbershops are open at 25 percent capacity
- Capacities at gyms, restaurants, bars, and churches are severely restricted
 - *unless they are outside and distanced*
- K-12 school in-person instruction mostly closed
- ditto: Most colleges / Universities
- Non-essential offices must still work remotely
- All entertainment venues are closed



millions
of visitors

Attendance at Disneyland / Anaheim

2001 -- 2019

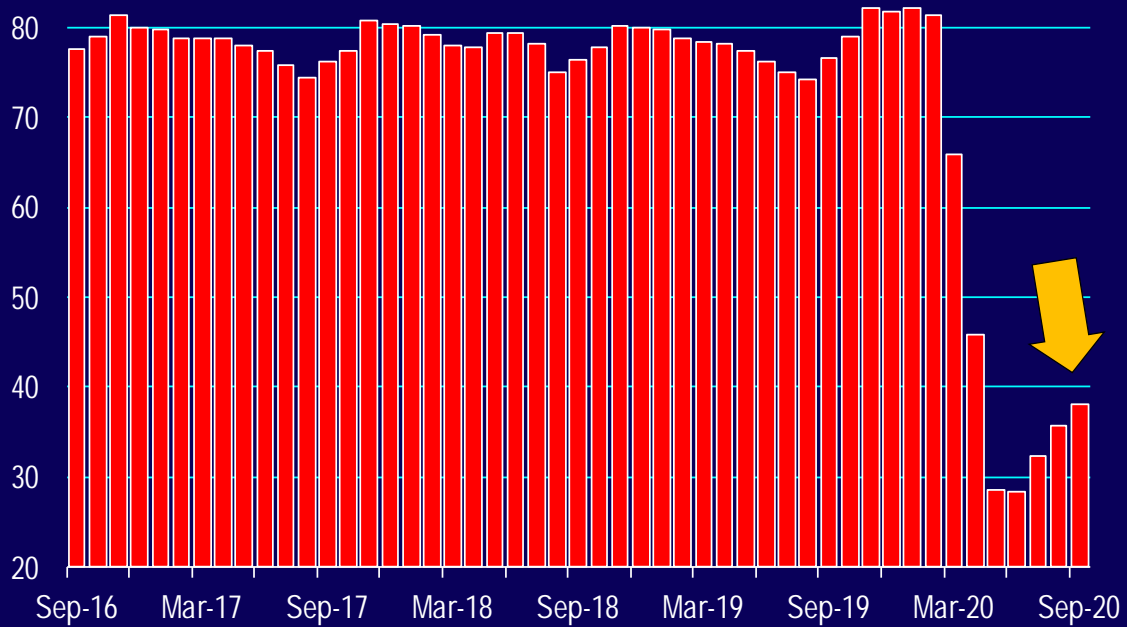


Hotel-Motel Occupancy Rate / Orange County

seasonally adjusted

percent

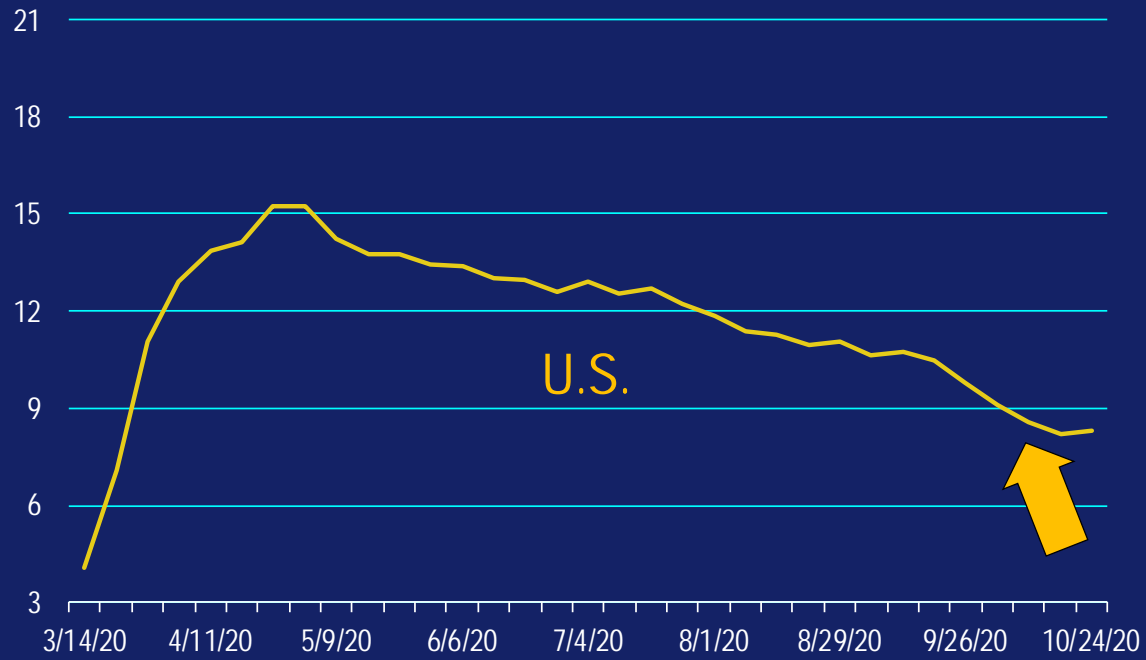
September 2016 -- September 2020



Weekly Unemployment Rate

percent

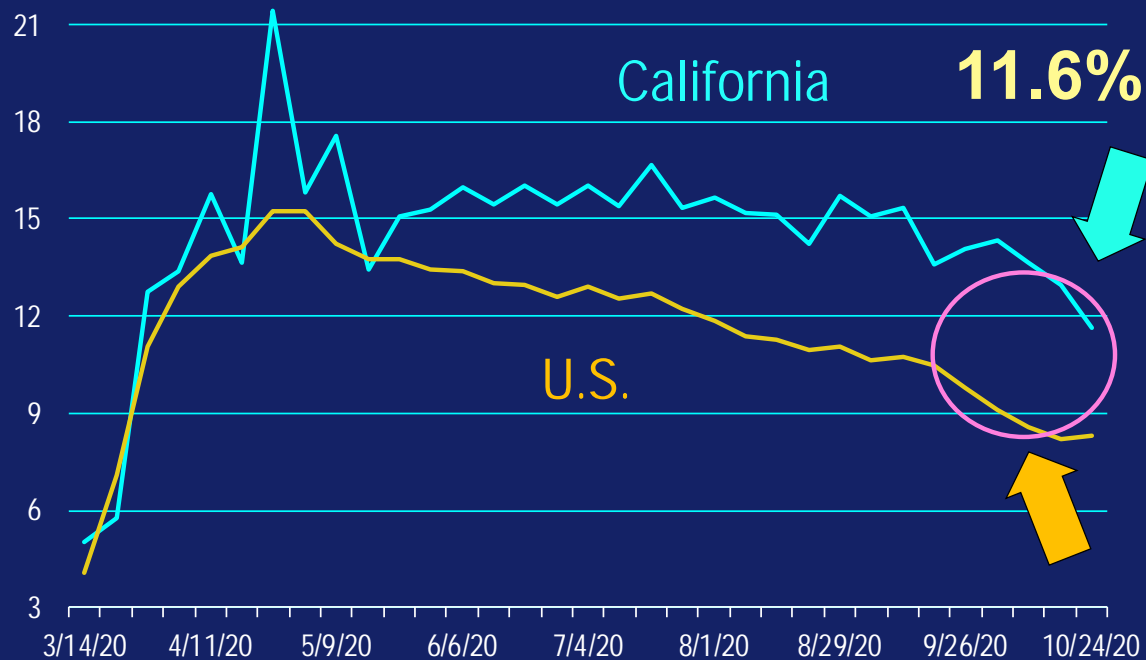
March 14, 2020 -- October 24, 2020



Weekly Unemployment Rate

percent

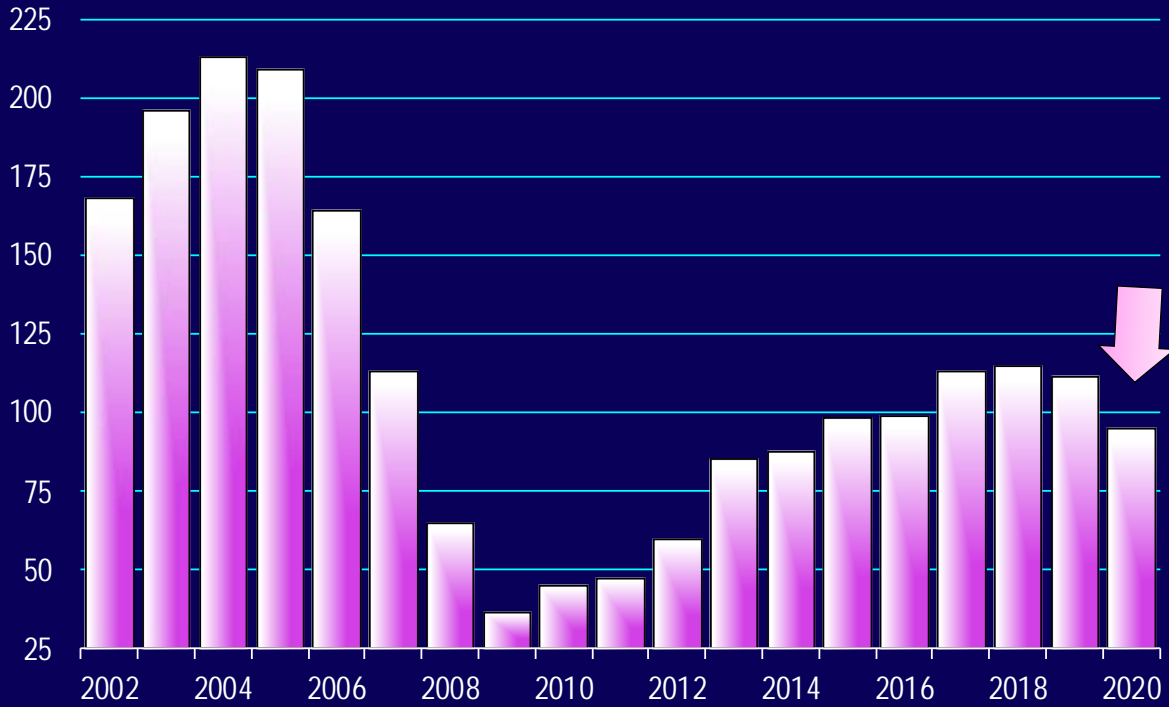
March 14, 2020 -- October 24, 2020



thousands
of units permitted

New Housing Production / California

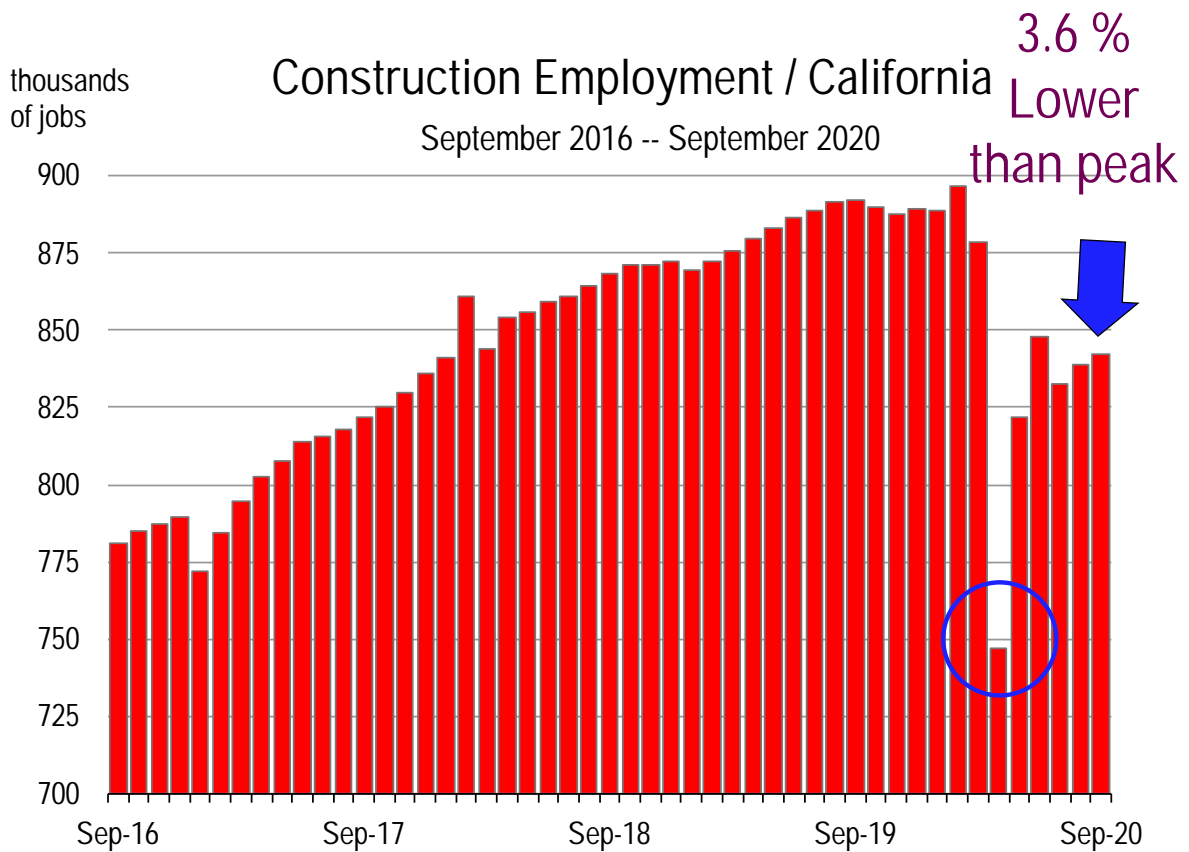
2002 -- 2020



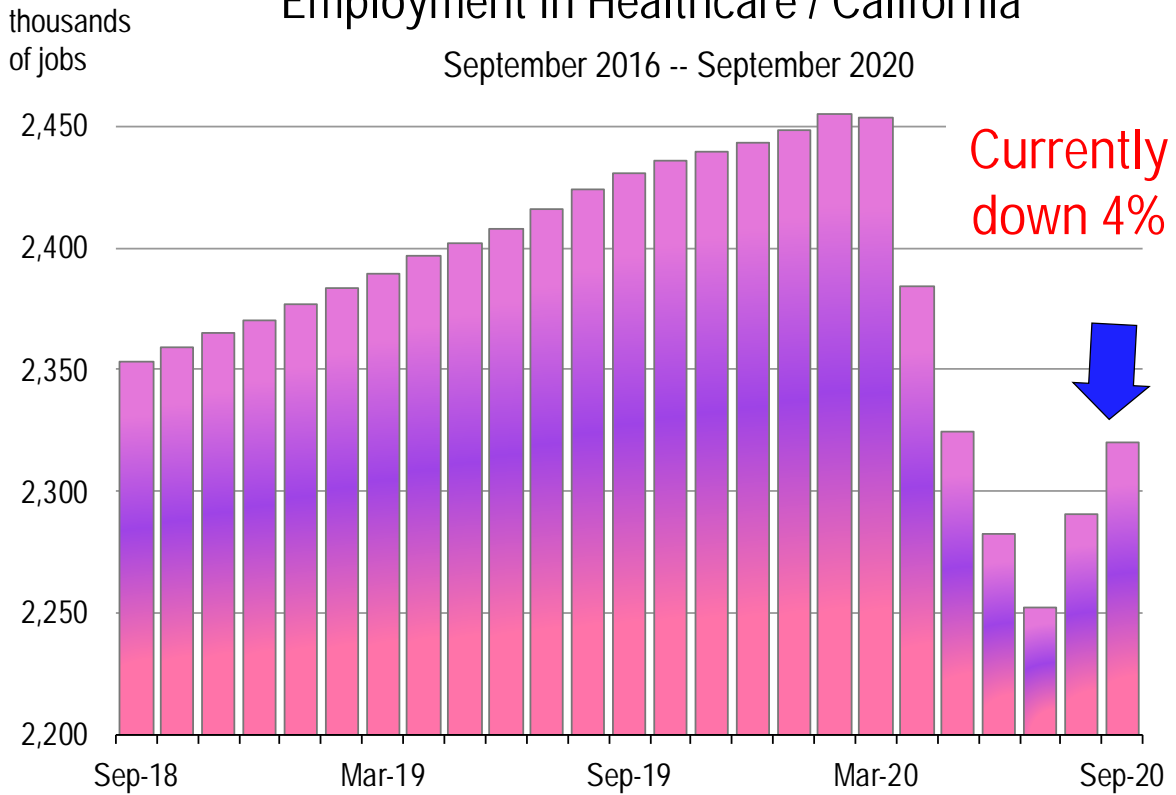
thousands
of jobs

Construction Employment / California

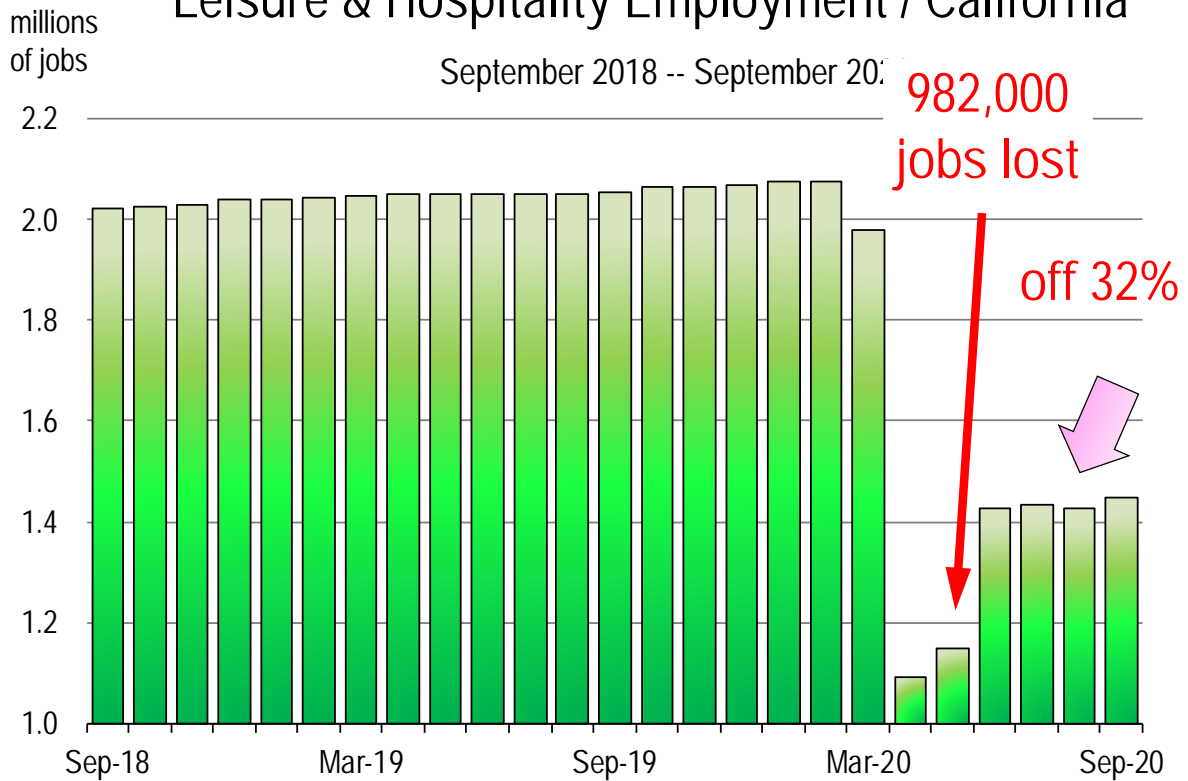
September 2016 -- September 2020

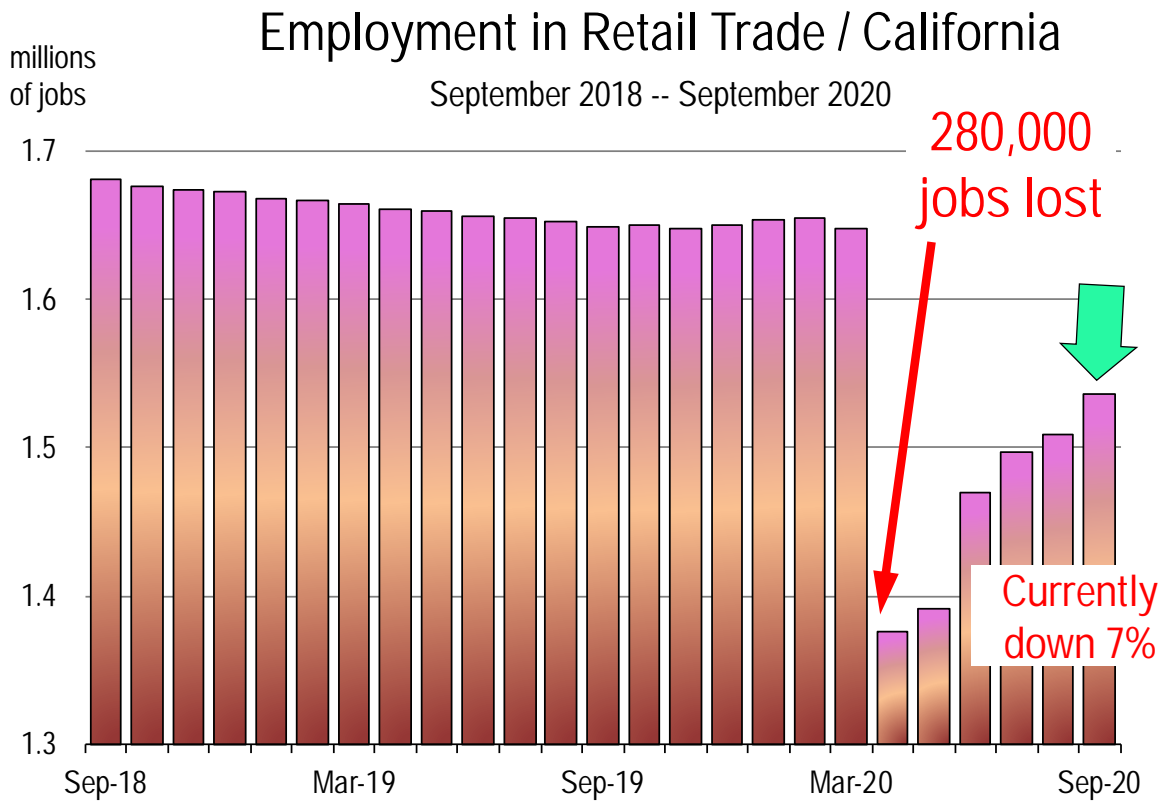


Employment in Healthcare / California



Leisure & Hospitality Employment / California

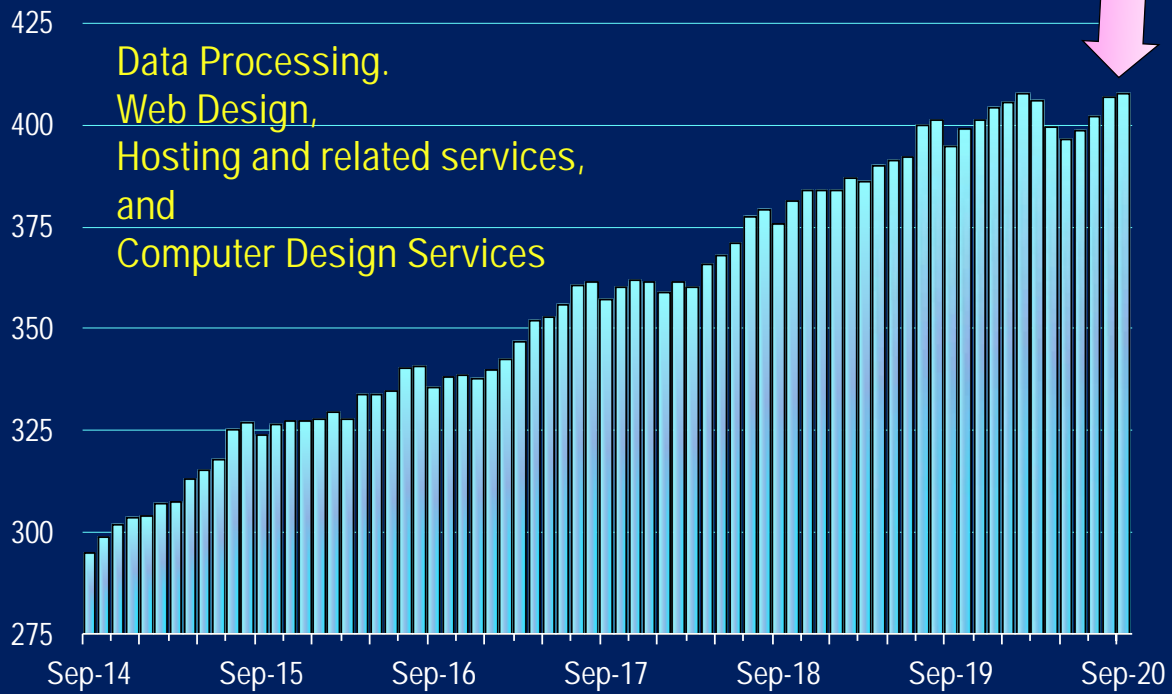




Data & Computer Design Employment / California

thousands of jobs

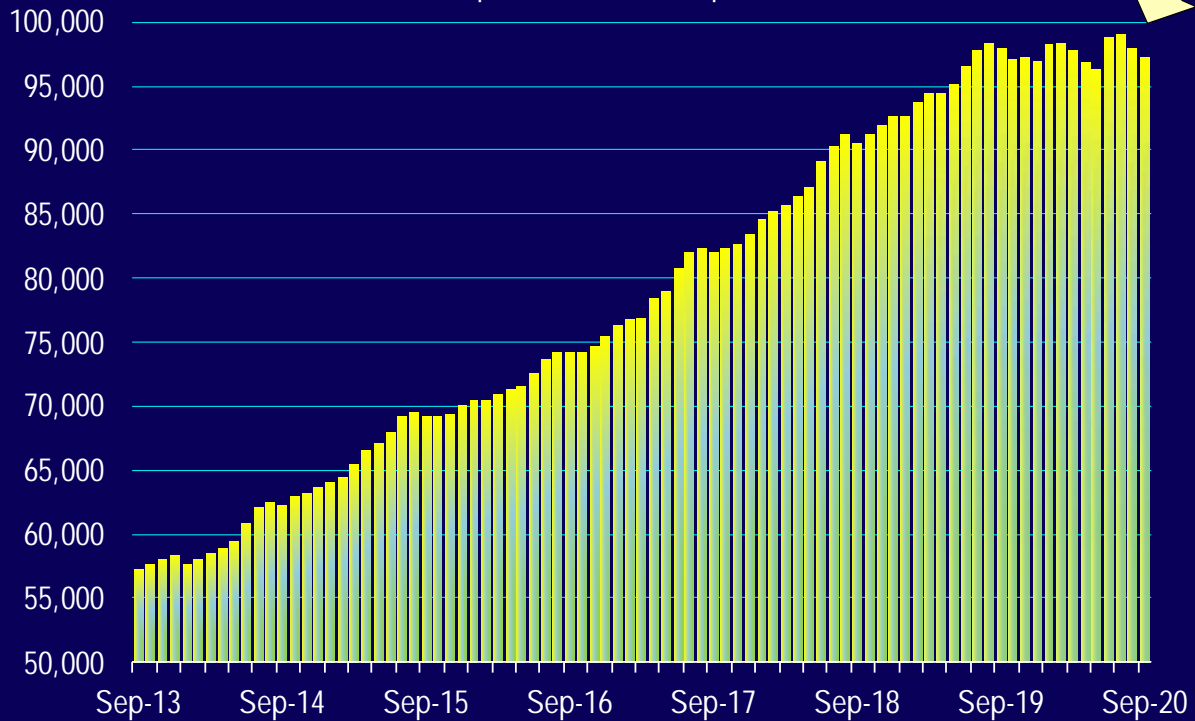
September 2014 -- September 2020



Employment in Software Development / California

jobs

September 2013 -- September 2020

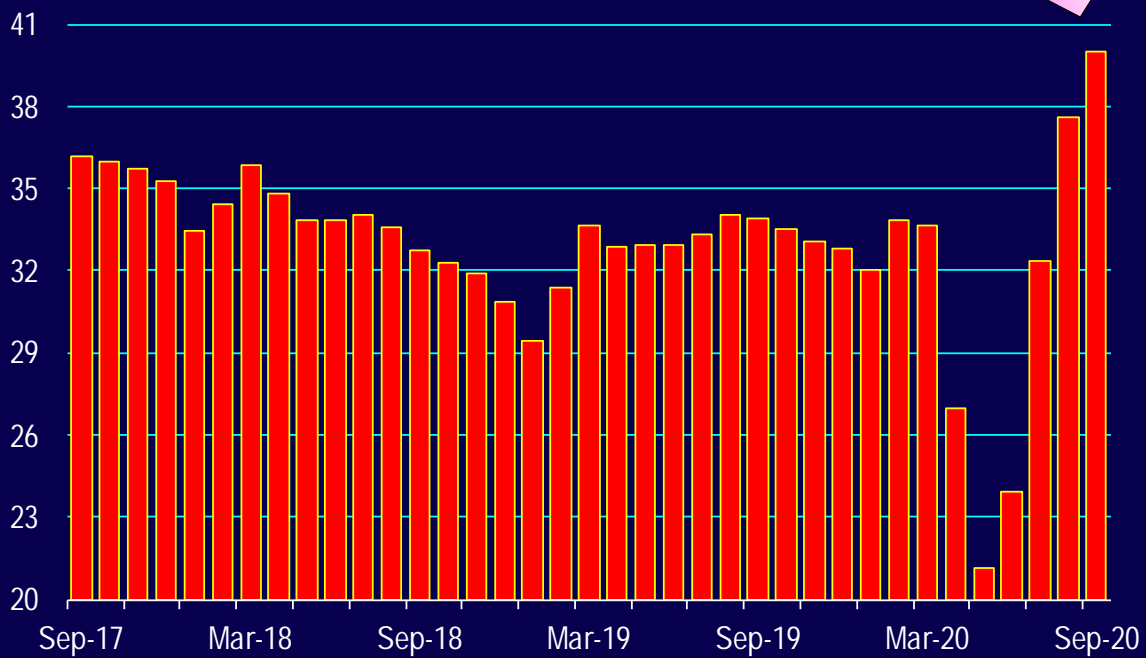


Existing Home Sales / California

thousands
of sales

seasonally adjusted

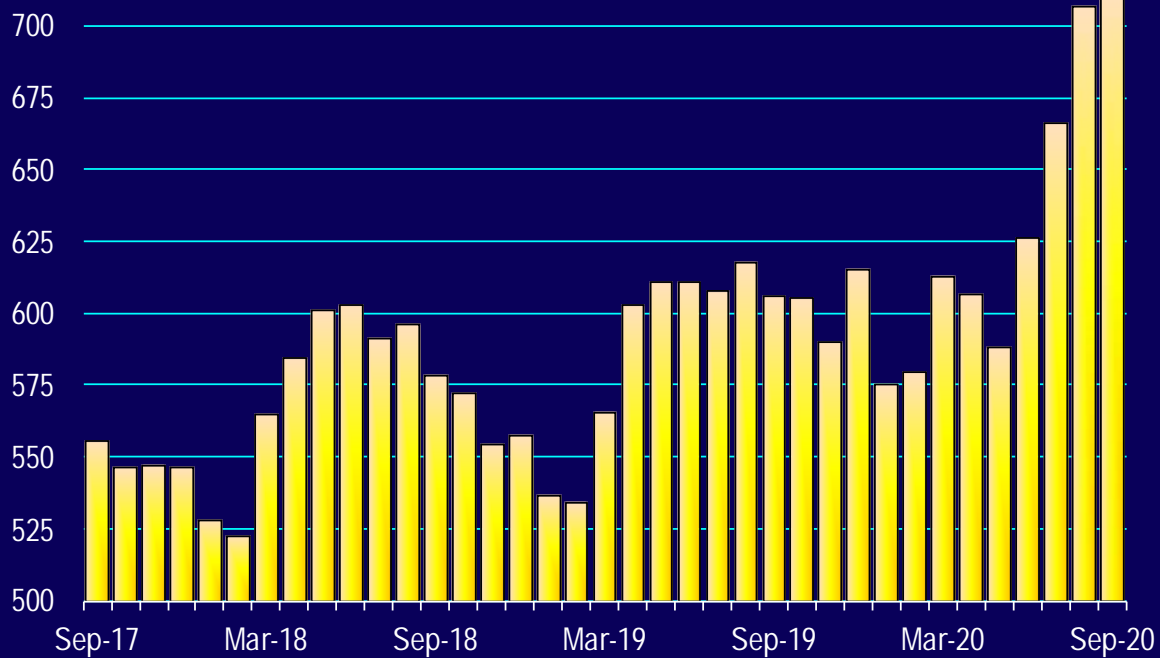
September 2017 -- September 2020



Median Home Selling Price / California

thousands
of dollars

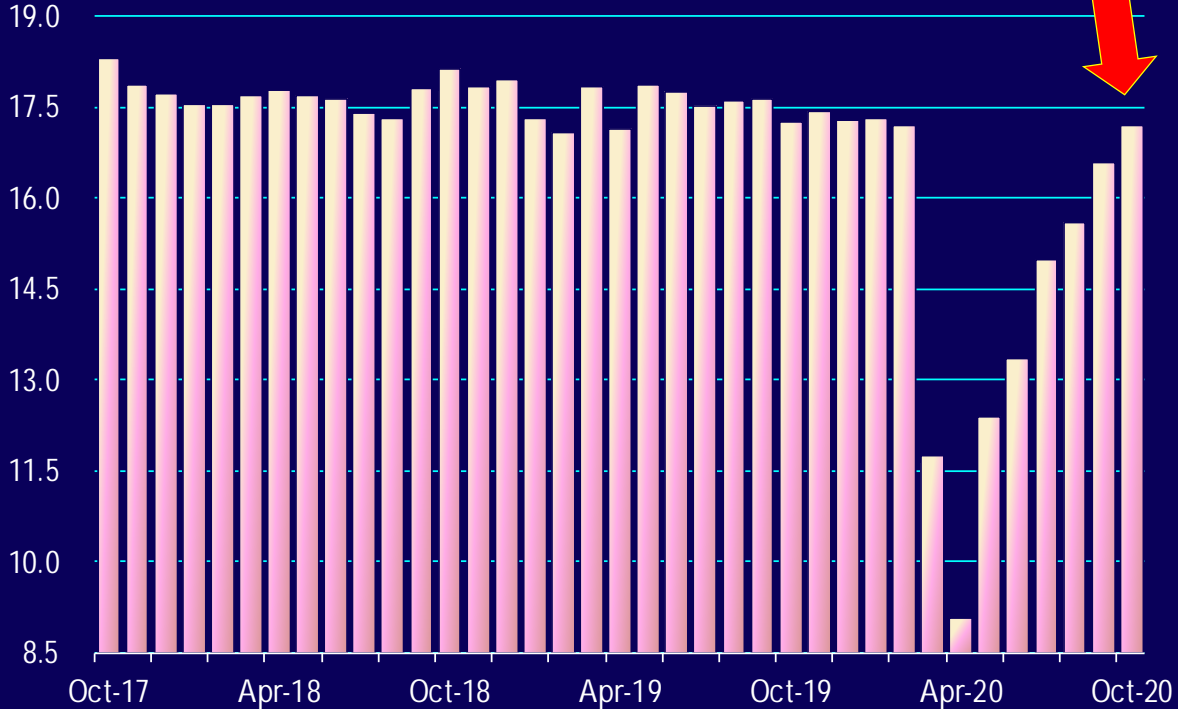
September 2017 -- September 2020



millions of
vehicles
(SAAR)

New Auto and Light Truck Sales / U.S.

October 2017 -- October 2020

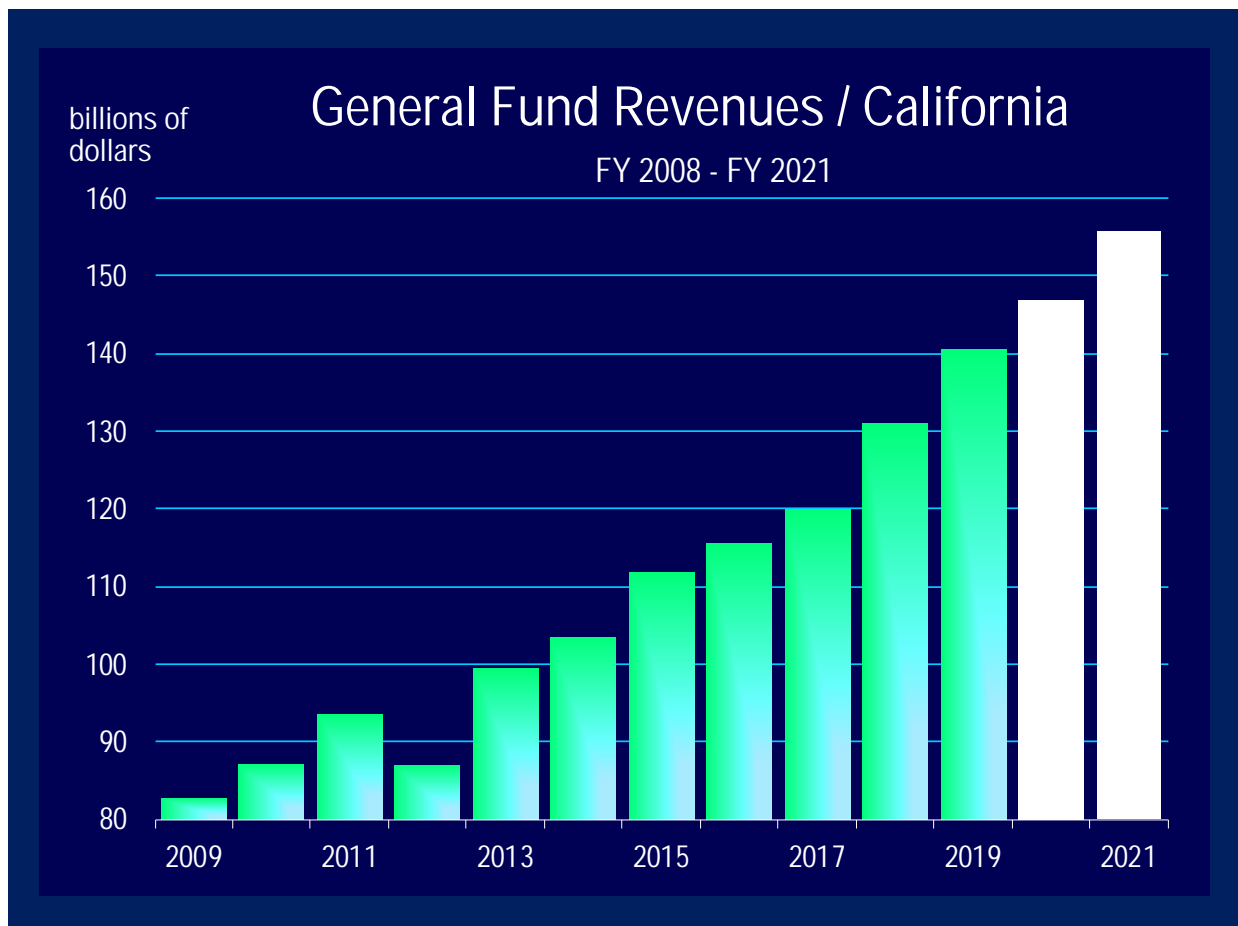
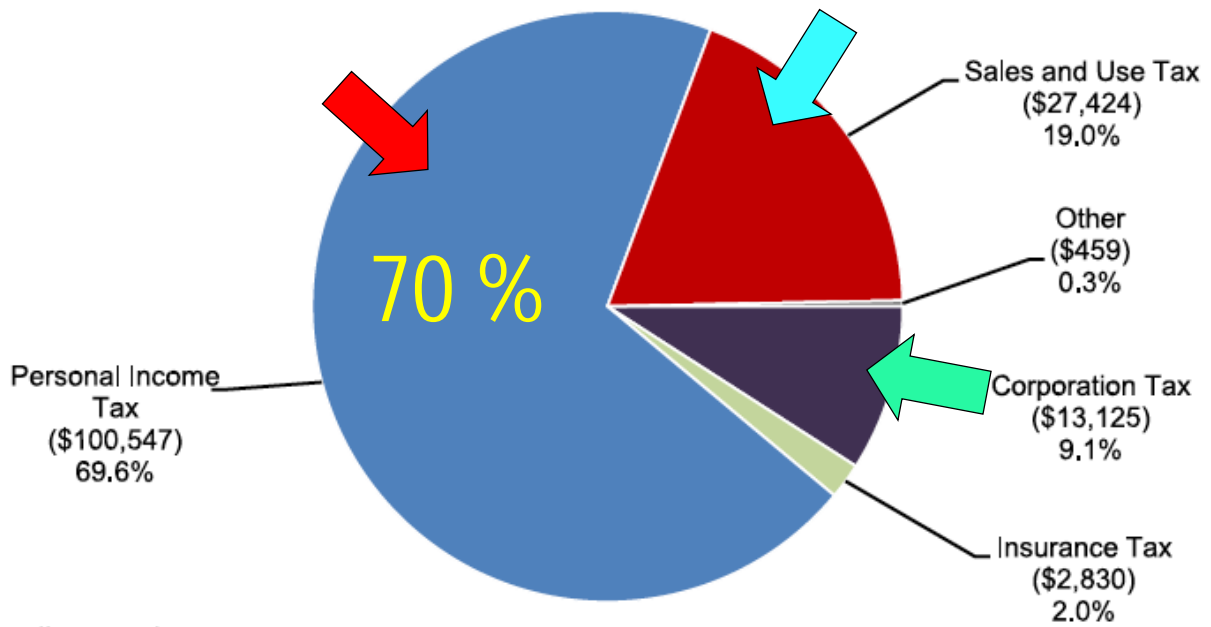


California State Budget

- Substantial decline in revenues in FY20
- The LAO estimates \$20 billion lower
- Higher costs due to caseload-related costs
- 9 percent increase in Medi-Cal payments
- 42 percent increase in CalWORK payments
- With retail sales recording precipitous declines this year, there is a sharp drop in sales tax revenue

General Fund Revenues

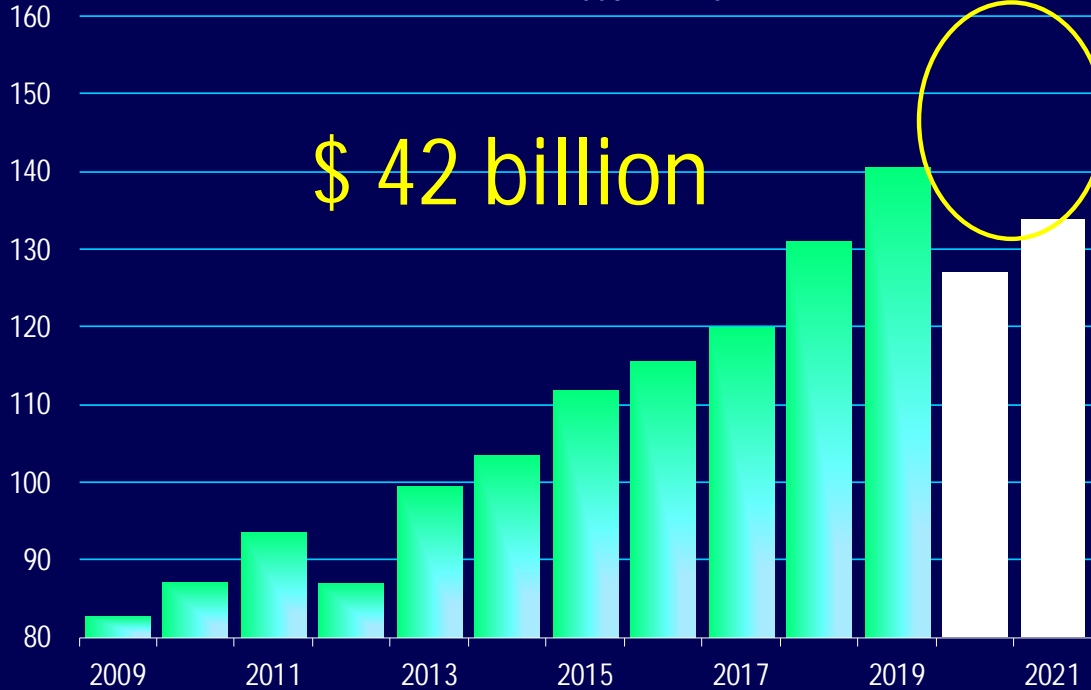
2019-2020



billions of
dollars

General Fund Revenues / California

FY 2008 - FY 2021

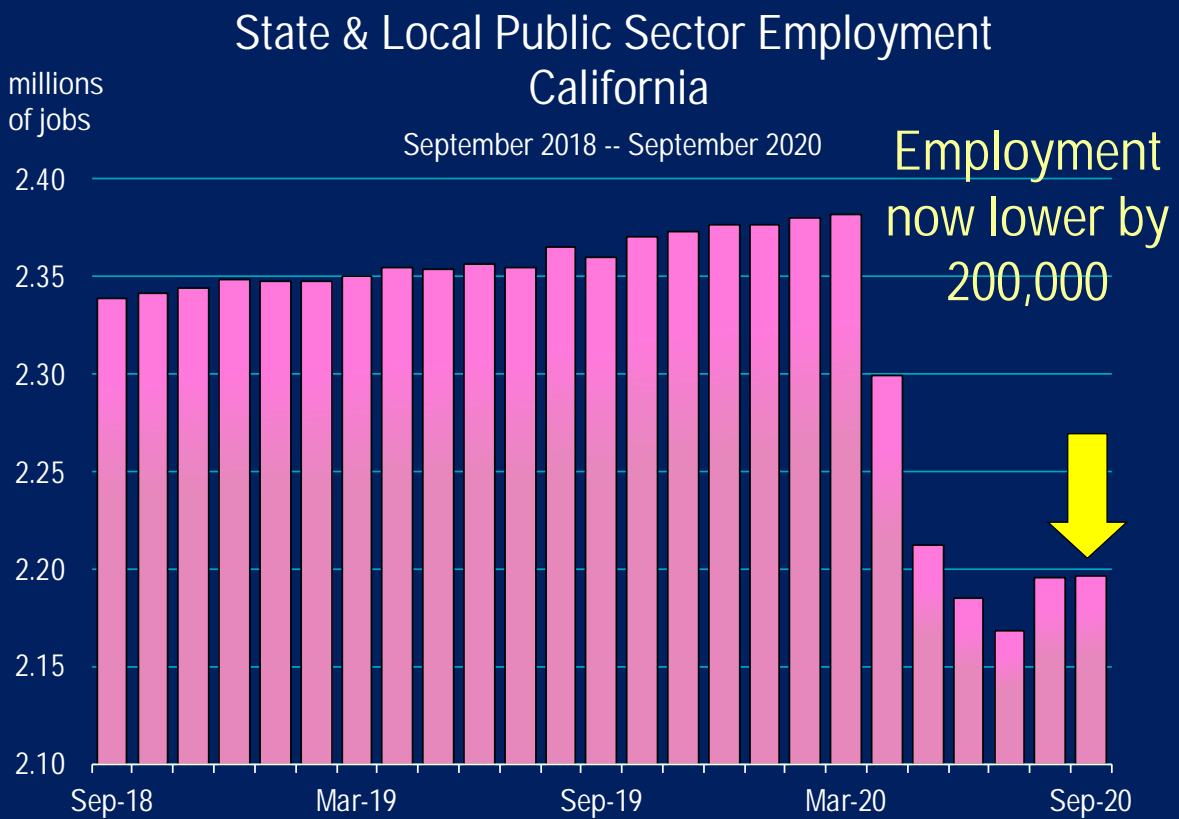


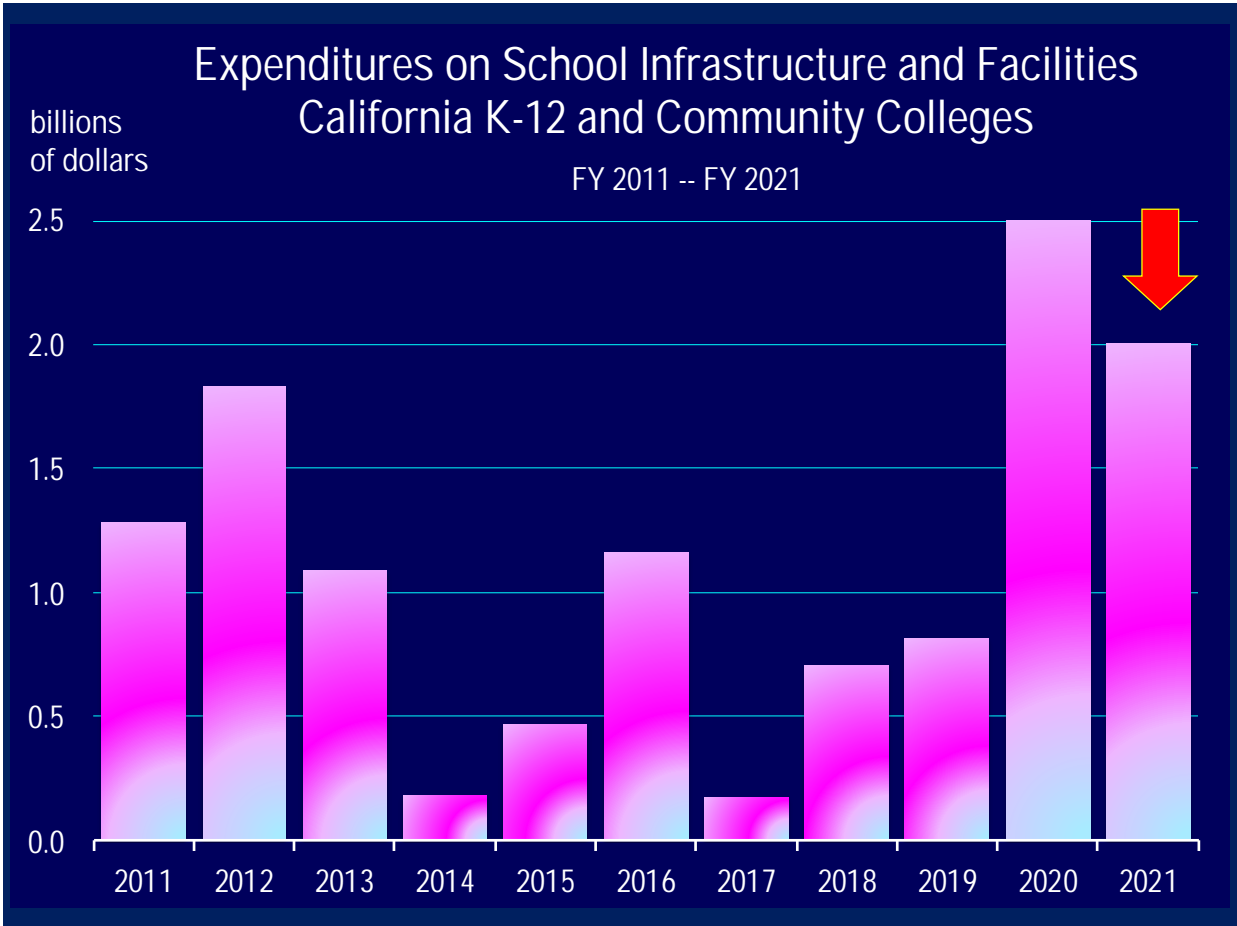
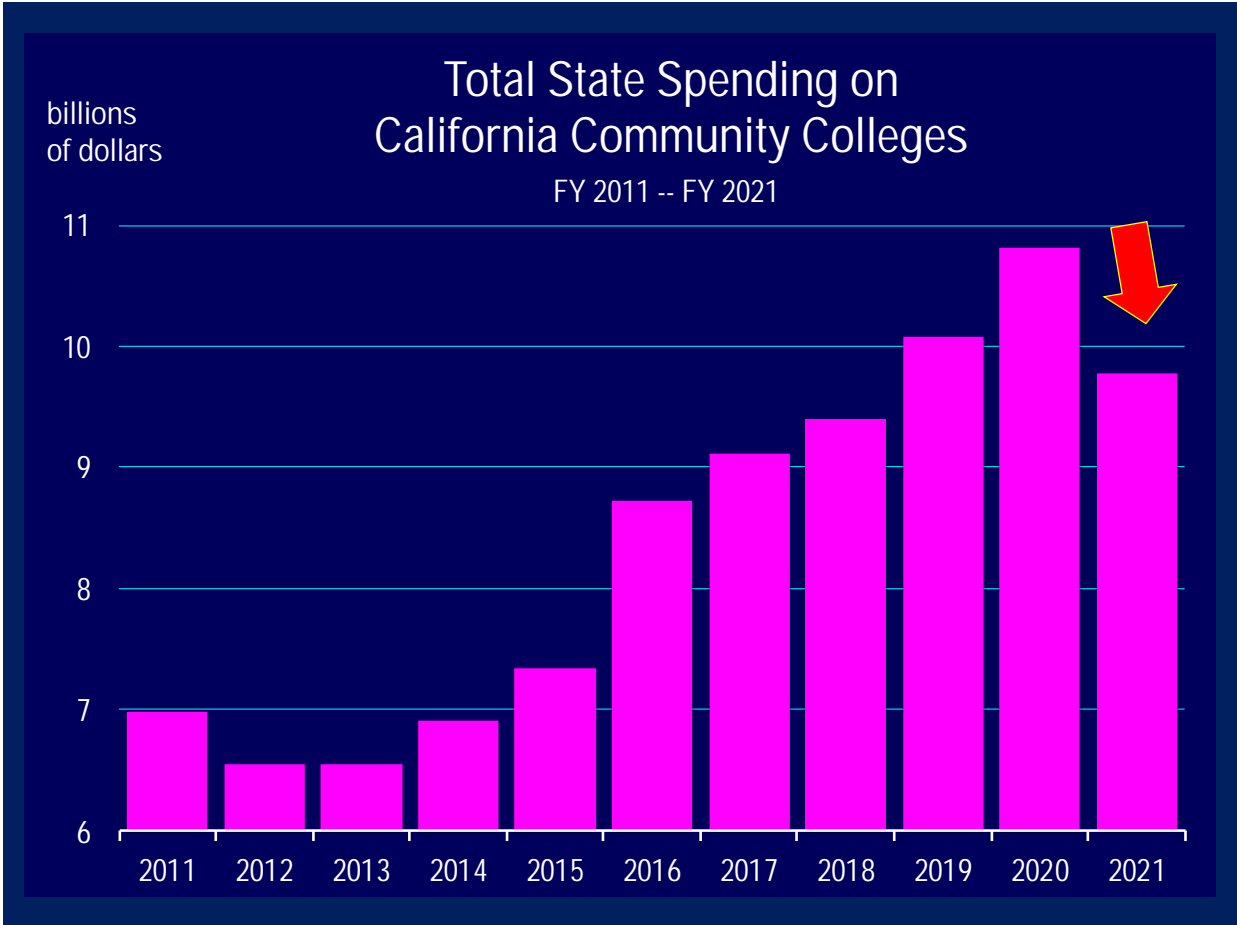
FY 2020-2021 Budget

- \$ 22 billion decline in Personal Income and Sales/use taxes
 - Together with FY20, the shortfall is \$42 B
- General Fund down \$20 billion if FY21
- Federal funding and reserves will help to offset deficits
- But a \$54 billion problem remains

Recommended Solutions

- Use reserves from the BSA
- Increase revenues by limiting NOL deductions for businesses
- Reduce budgeted spending levels on K-14 schools
- Reduce spending in general
 - Reduce state employee pay
 - Reduce spending on higher education





The 2021 Forecast

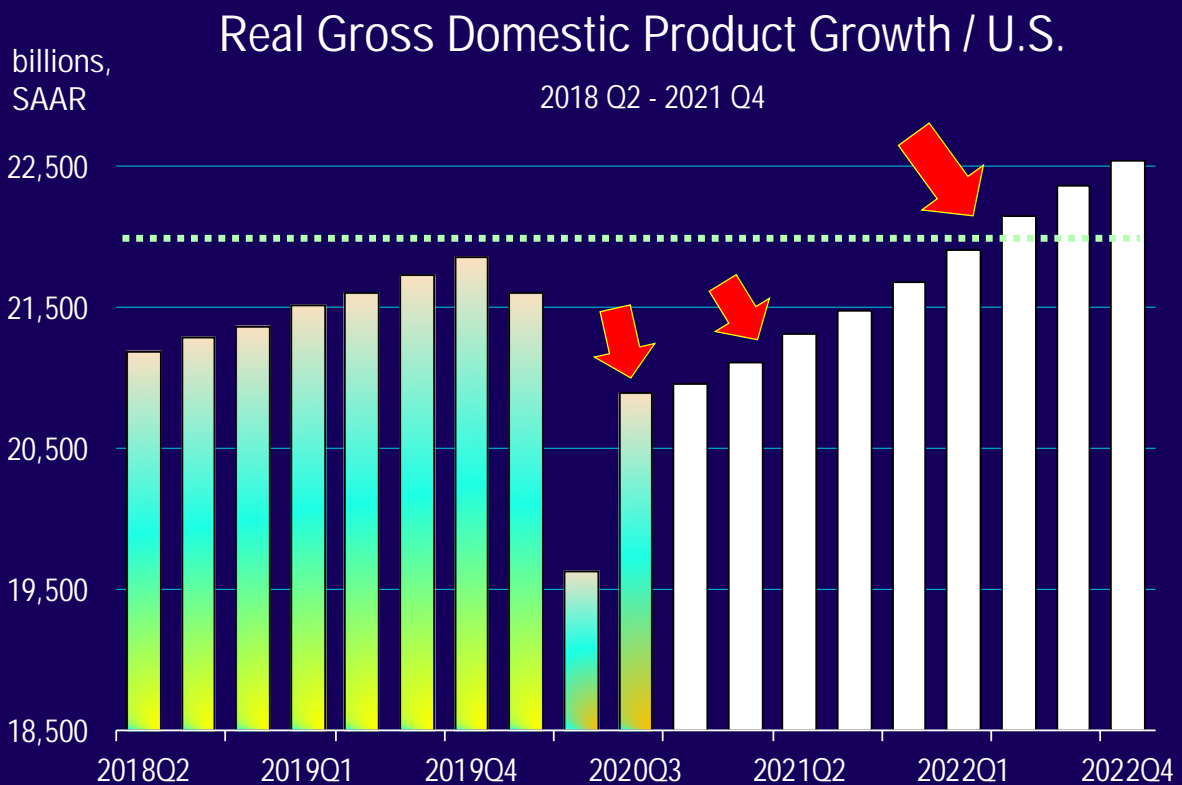


The Paradigm for the forecast now and moving into 2021

- Producing an economic forecast is hard enough when the economy is wide-open for business . .
- But now, with business restrictions changing based on the vagaries of the coronavirus, we need to construct a plausible scenario going forward that enables a reasonable outlook
- So our paradigm is as follows:

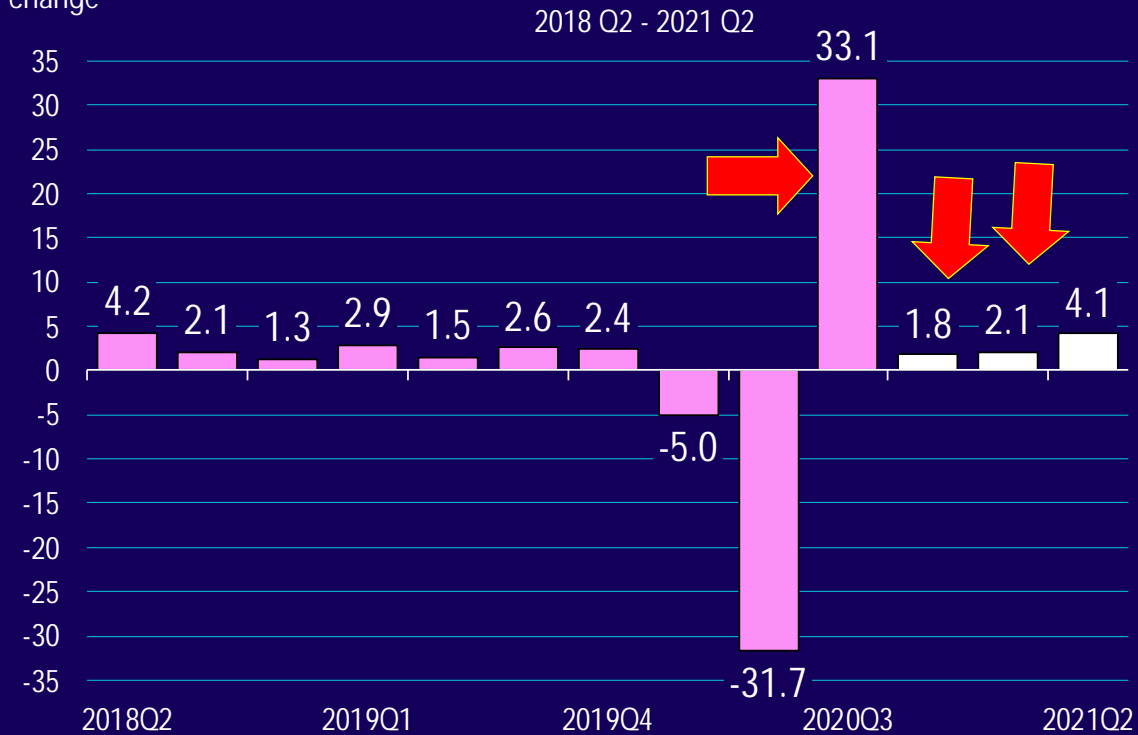
Assumptions

- There is widespread availability and usage of an effective vaccine in early 2021
- Alternatively, the pandemic's impact on economic activity abates and is relatively mild in 2021 and 2022
- Another round of fiscal stimulus occurs in early 2021
- Given this scenario, the growth of GDP looks something like this:



percent
change

Real Gross Domestic Product Growth / U.S.



2020 Economic Forecast Summary

- The economy is expected to slow this Winter, especially California
- The recovery will continue however, and both income and spending will increase
- Job creation continues, but at a slower rate than May-June-July-August
- Unemployment is the sticking point, because of rising bankruptcies and muted demand by consumers for services with high human contact
- Expect more layoffs from hotel chains, airlines, and anything travel related

United Airlines plans to lay off more than 16,000 employees

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ABC News, October 1, 2020

United is still poised to furlough nearly 12,000 flight attendants, mechanics and other union employees.

US air travel remains 66% lower than it was a year ago, and United executives do not expect travel to fully recover until a COVID-19 vaccine is widely available.

THE WALL STREET JOURNAL

Home World U.S. Politics Economy **Business** Tech Markets Opinion Life & Arts Real Estate WSJ.Maga

Disney to Lay Off 28,000 Employees as Disneyland's Reopening Unclear



Visitors at the Downtown Disney district in Anaheim, Calif., in July.

PHOTO: JEFF GRITCHEN/ORANGE COUNTY REGISTER/ASSOCIATED PRESS

[Walt Disney Co.](#) DIS 1.54% ▲ said it would lay off about 28,000 employees at its domestic theme parks, making the announcement shortly after the state of California signaled that

Wall Street Journal, September 28, 2020

California / Principal Assumptions

- The California economy remains half open for the rest of 2020 and into 2021
- Schools remain mostly closed in Jan-Feb
- The inability for schools to open in California together with the current restrictive business environment, leads to an economy that is challenged to make steady progress towards recovery, as the rest of the nation is doing . . .
- Large major public events will be limited through the spring of 2021

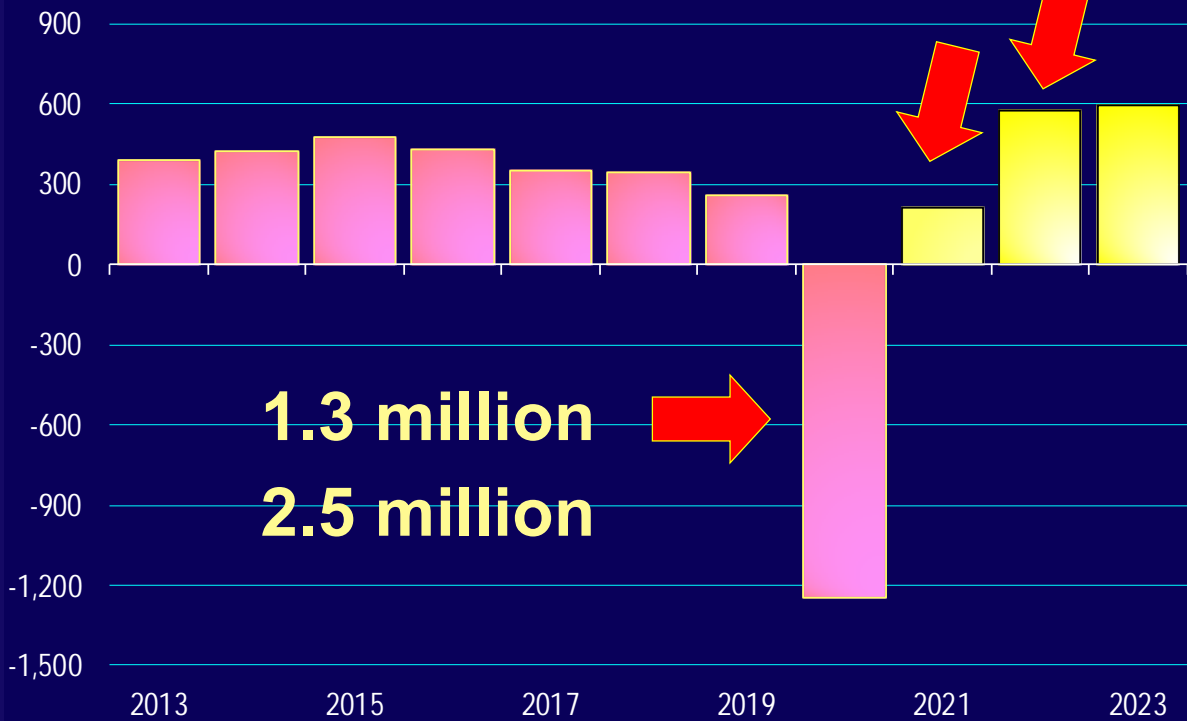
California / Principal Assumptions

- The vaccine is ready for widespread dissemination in early 2021
 - inoculations occur during 2021 Q1 and Q2
 - pandemic abates by summer 2021
- Most business restrictions are lifted by late summer 2021
- Growth accelerates with a wider-open economy and less reticent consumers

thousands of non-farm jobs

Job Creation / California

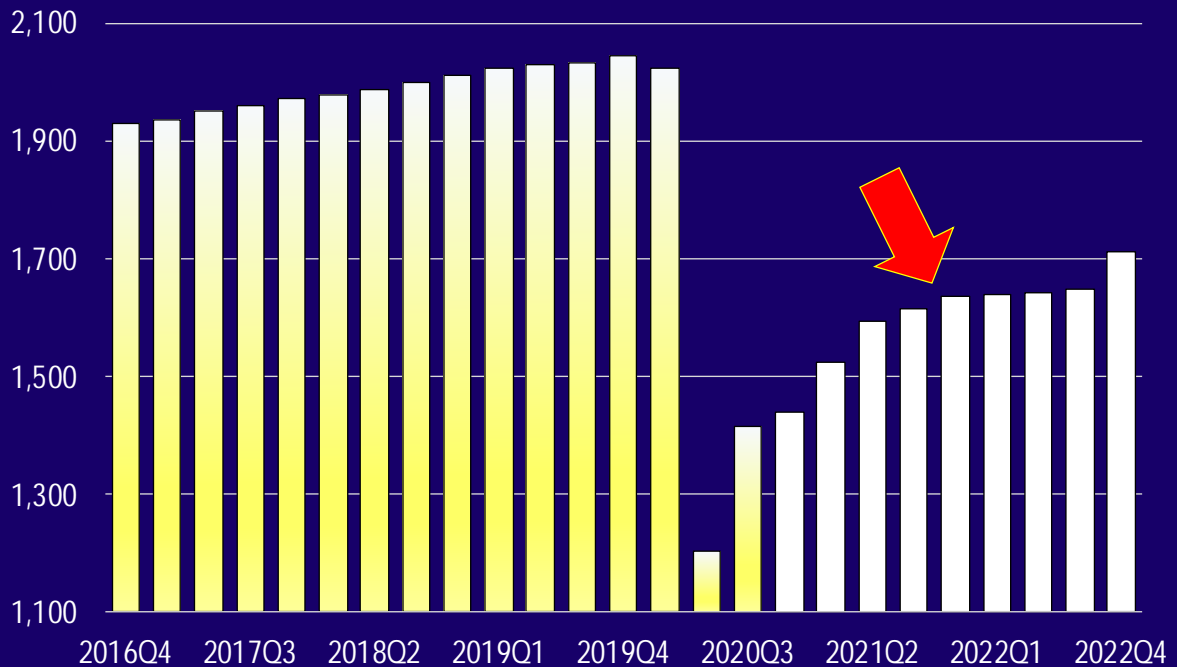
2013 - 2023

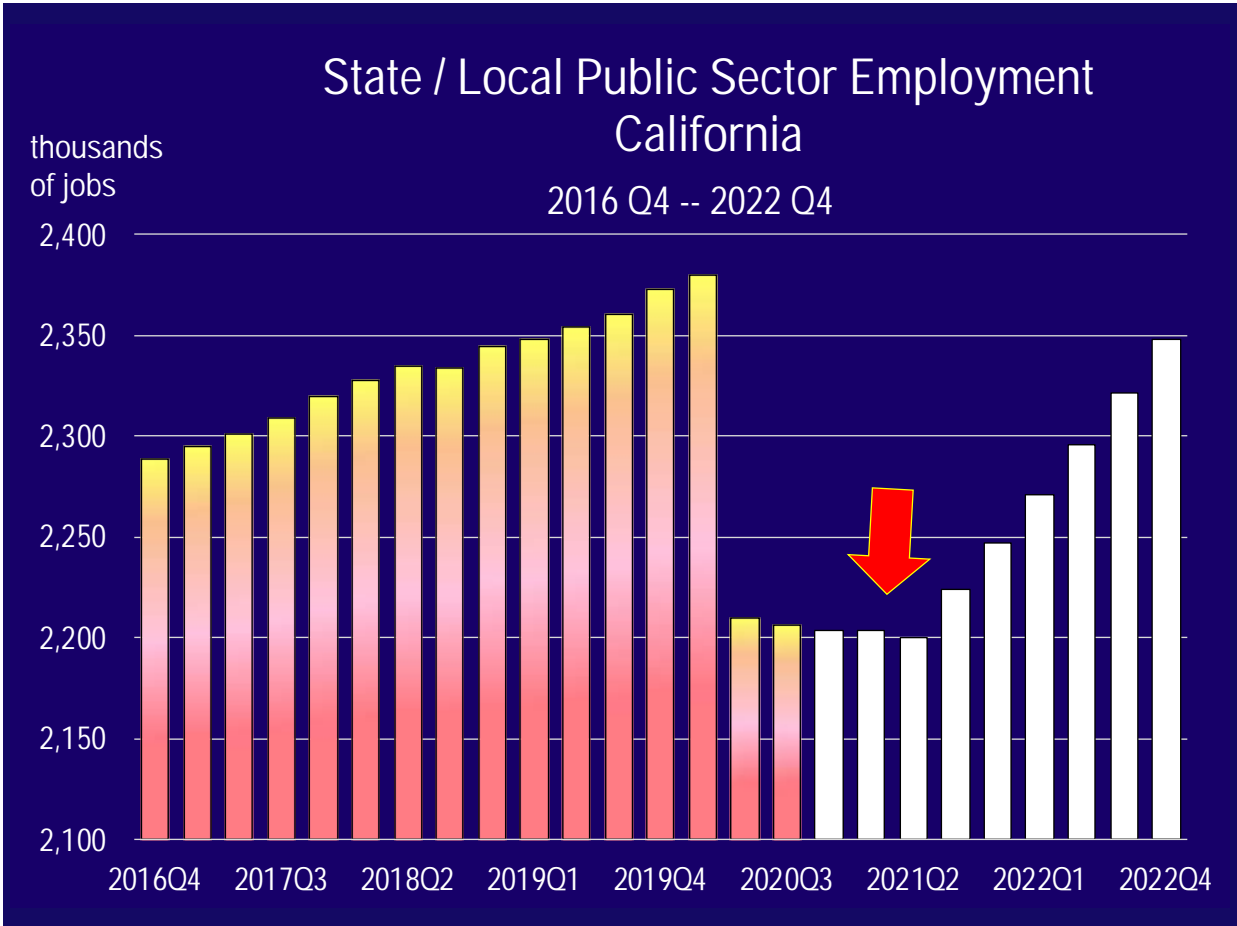
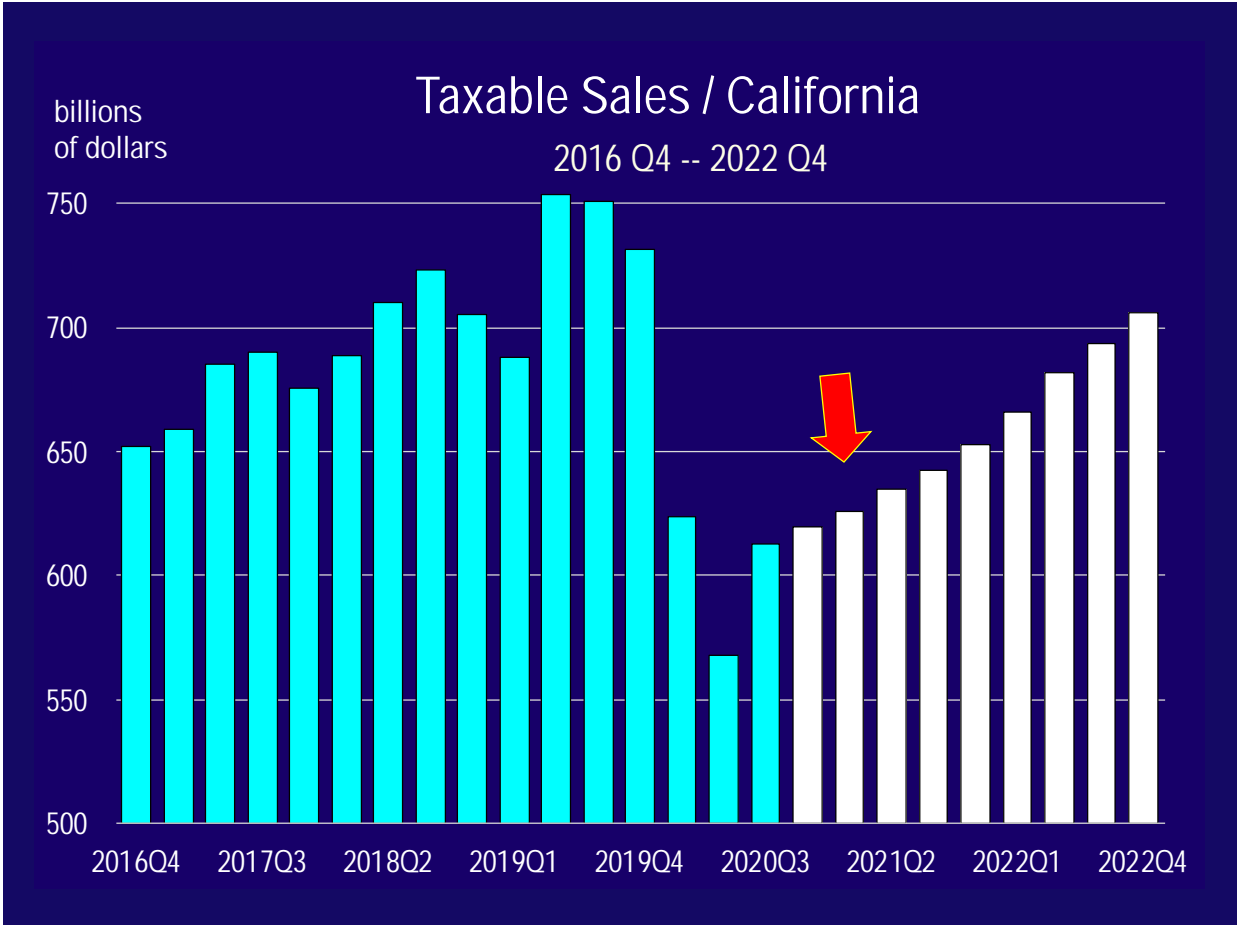


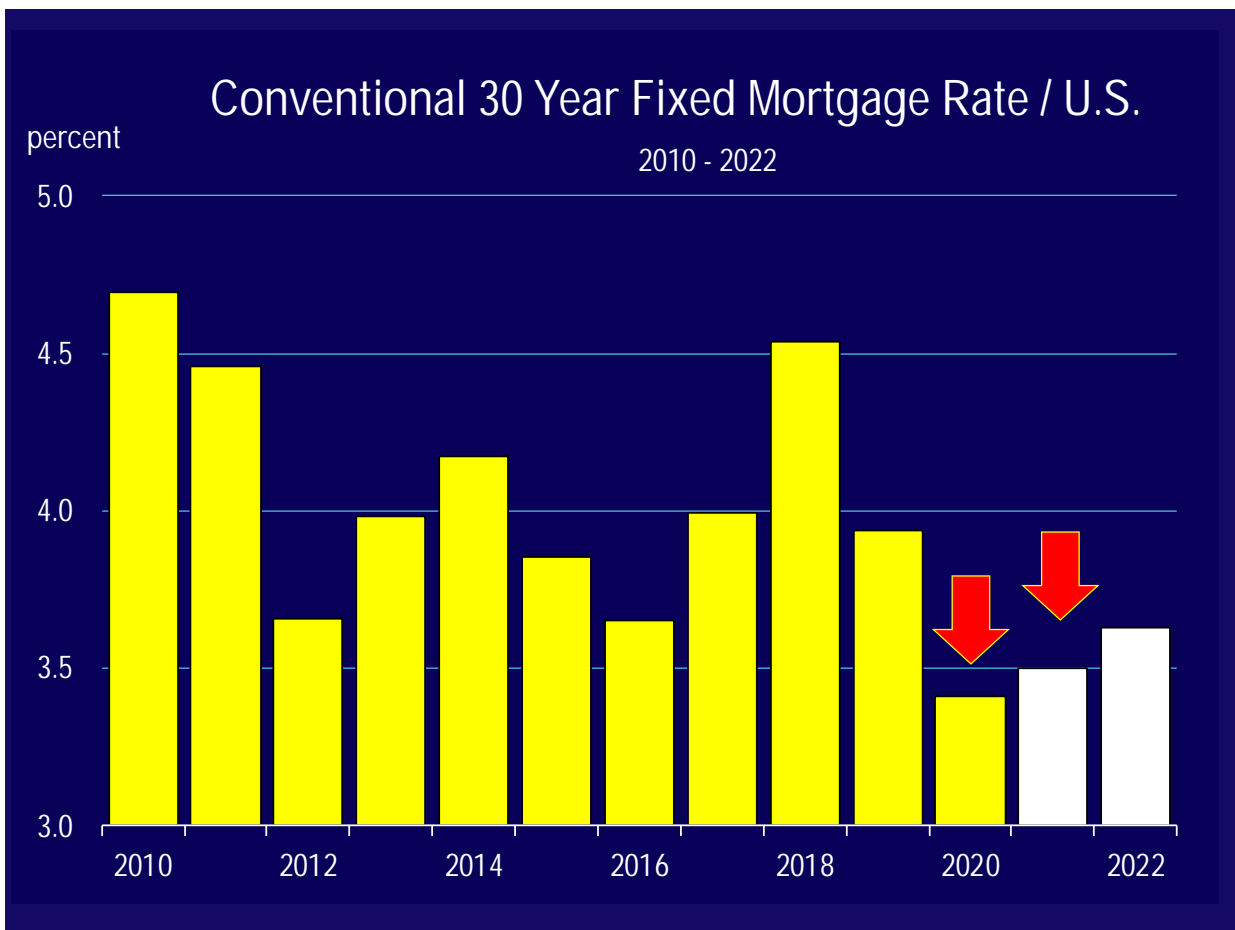
Employment in Leisure-Recreation-Hospitality California

thousands of jobs

2016 Q4 -- 2022 Q4







Forecast Summary

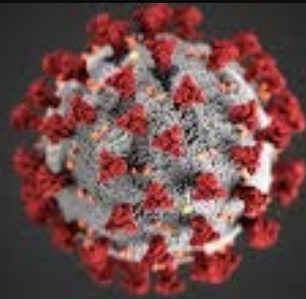
- The recovery is sustainable as long as the coronavirus cooperates
- California will largely track movements in the U.S. economy, but will clearly lag
- The housing market recovers first
 - *both existing and new home building*
- A full recovery is not expected until mid-2022
- And labor markets not until mid-2023

For Economic Updates
Regarding the Coronavirus



www.californiaforecast.com

COVID 19 Updates



The end

Hope to see you
in person next year